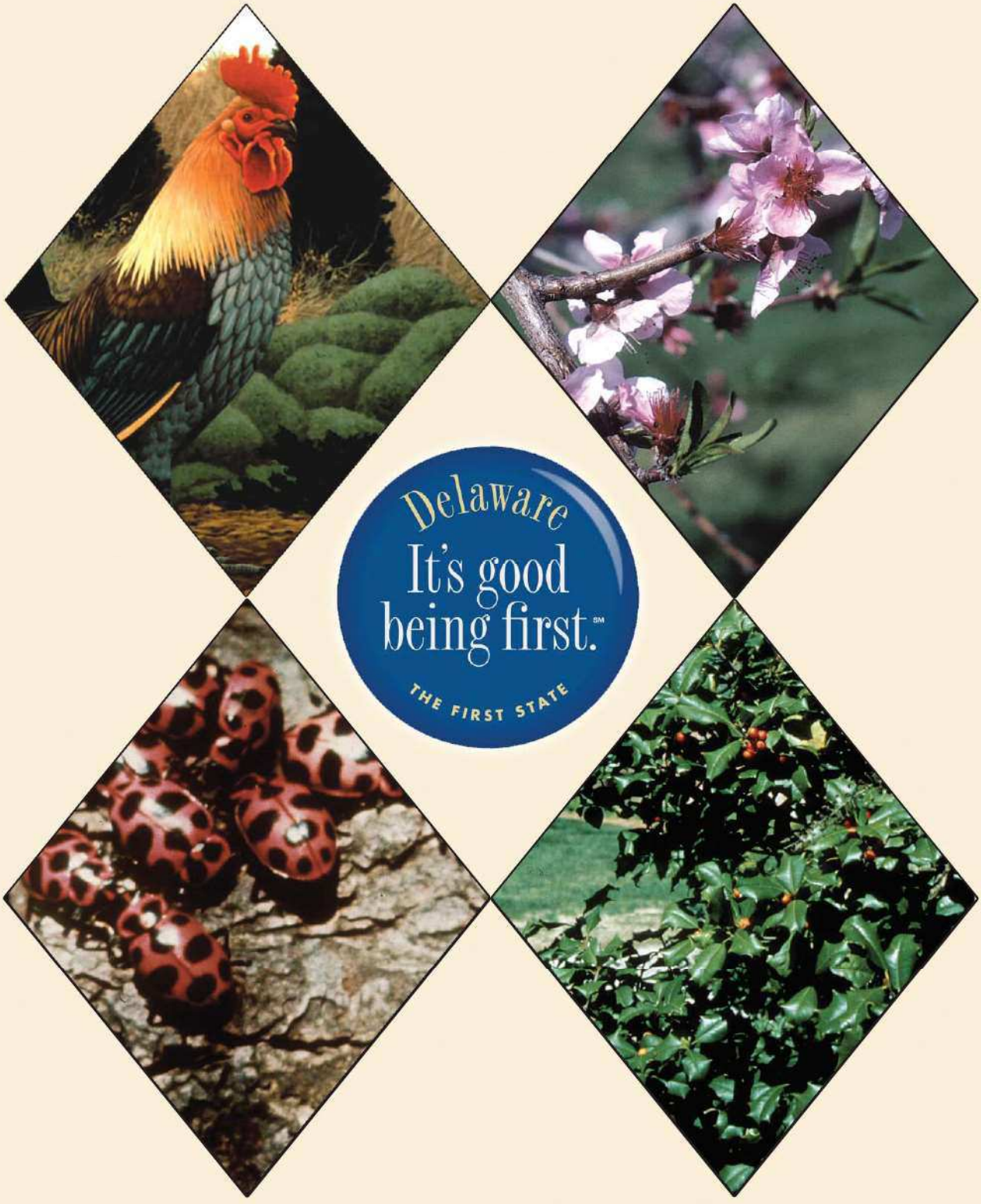
State of Delaware
Comprehensive Annual Financial Report



For the Year Ended June 30, 2005

STATE OF DELAWARE
OFFICE OF THE GOVERNOR

RUTH ANN MINNER
GOVERNOR

January 4, 2006

To the People of Delaware
and the Honorable Members of the
143rd General Assembly

I am pleased to submit the State of Delaware's Comprehensive Annual Financial Report for fiscal year 2005. In addition to providing sound information for policymakers and legislators, this all-inclusive financial report is designed to encourage taxpayers to understand their state government's financial activities. Included in this report are the State's Basic Financial Statements, prepared in conformity with Generally Accepted Accounting Principles (GAAP) and audited by KPMG LLP.

Delaware's economic and fiscal conditions remain sound, as the enclosed report demonstrates. The State's long history of prudent financial management and effective fiscal controls has allowed our state to weather the recent national economic challenges. Because of these strategies, Delaware remains one of only six states that hold the nation's highest bond ratings: Aaa from Moody's Investment Service; AAA from Fitch Ratings and AAA from Standard & Poor's. These ratings place Delaware among the most creditworthy states in the nation.

I am proud to report that we effectively managed the economic and fiscal challenges that confronted us during fiscal year 2005 and will continue to do so in fiscal 2006 and beyond. As we face new challenges, I am confident that Delaware will continue its long tradition of prudent financial management.

Sincerely,

Ruth Ann Minner

Ruth Ann Minner
Governor

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State of Delaware

Comprehensive Annual Financial Report

For the Year Ended June 30, 2005

Ruth Ann Minner

Governor

Richard S. Cordrey
Secretary of Finance

Trisha L. Neely
Director, Division of Accounting

Prepared by the Department of Finance, Division of Accounting

State of Delaware
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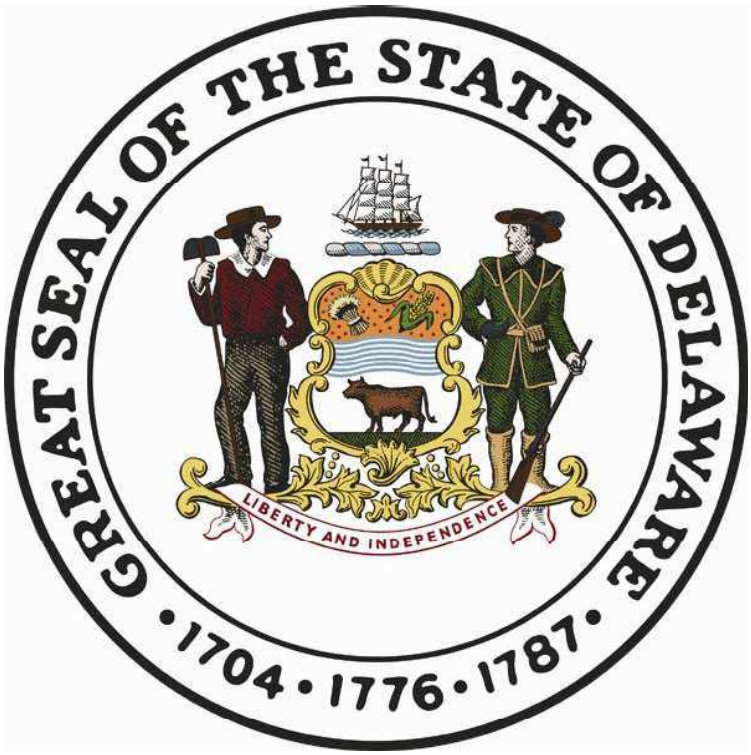

On the Cover:

Delaware's State Bird: Adopted April 14, 1939, the “Blue Hen” chicken had long been used as a motif in numerous political campaigns and in many publications. During the Revolutionary War, the men of Captain Jonathon Cadwell's company took with them a brood of Blue Hen game chickens. When not fighting the enemy, the officers and men amused themselves by pitting the Blue Hens in cockfights. The fame of the cockfights spread throughout the army. When in battle, the Delaware men fought so valorously that they were compared to these fighting cocks.

State Flower: Passage of the act to adopt the Peach Blossom on May 9, 1895 was prompted by Delaware's reputation as the “Peach State.” At that time, Delaware's orchards contained more than 800,000 peach trees.

State Tree: Adopted May 1, 1939, the American Holly is regarded as one of Delaware’s most important forest trees. During the 1920s and 1930s, Delaware was the country's leading producer of yuletide holly wreaths.

State Bug: Adopted April 24, 1974, the Lady Bug was chosen by the Legislature after an intensive effort on the insect's behalf by a group of elementary school children.

The state symbols are arranged in diamonds because Delaware is known as the “Diamond State.”The state was given this nickname because it has been described as a “jewel” among states due to its strategic location on the Eastern Seaboard. Other Nicknames — “The First State,” “Small Wonder” and “Blue Hen State.”

State of Delaware

Comprehensive Annual Financial Report

Introductory Section

STATE OF DELAWARE
DEPARTMENT OF FINANCE
OFFICE OF THE SECRETARY

RICHARD S. CORDREY
SECRETARY OF FINANCE

January 4, 2006

The Honorable Ruth Ann Minner
Members of the Legislature
Citizens of Delaware

It is my pleasure to present the 2005 Comprehensive Annual Financial Report (CAFR) for the State of Delaware. The report for the fiscal year ended June 30, 2005 has been prepared in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as prescribed by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

The Department of Finance is responsible for accuracy of the data, as well as the completeness and fairness of the report's presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is presented in a manner that fairly reports the State's financial position, results of operations, and changes in net assets/fund balances. All disclosures necessary to enable the Governor, members of the General Assembly, the public and the financial community to fully understand the State's financial activities are included.

The CAFR is presented in three major sections: introductory, financial and statistical.

- The introductory section includes this letter, a list of key State officials, the State's organizational chart and the Certificate of Achievement for Excellence in Financial Reporting for the June 30, 2004 CAFR.

- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A); Basic Financial Statements (Government-Wide Financial Statements, Fund

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Financial Statements and notes) and other Required Supplementary Information.

- The statistical section includes selected financial, economic and demographic information, presented on a multi-year basis.

GASB Statement Number 34 requires that management provide a narrative introduction, overview and analysis to accompany the Basic Financial Statements in the form of the MD&A. This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

PROFILE OF THE GOVERNMENT

Delaware is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean, the Delaware Bay and the states of New Jersey, Pennsylvania and Maryland. The State is 96 miles long and has a land area of 1,955 square miles. Over 818,000 people reside here. As the first state to ratify the Unites States Constitution on December 7, 1787, Delaware is known as "The First State." The structure of Delaware's government, which is similar to other states, consists of three branches that operate through a system of checks and balances. The executive branch is comprised of the Governor, Lt. Governor, State Treasurer, State Auditor, Attorney General and Insurance Commissioner. The legislative branch is bicameral and consists of a 21-member Senate and a 41-member House of Representatives. The judicial branch includes the Supreme Court, Superior Court, Court of Chancery, and other courts.

The State of Delaware reporting entity reflected in the CAFR, which is described more fully in Note 1 to the basic financial statements, conforms to the requirements of GASB Statement Number 14, The Financial Reporting Entity. Further, Statement Number 14 provides that the financial statements should emphasize the primary government and permit financial statement users to distinguish between the primary government and its component units. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

The State budgets and controls its financial activities on the cash basis of accounting during its fiscal year. In compliance with State law, the State records its financial transactions in either of two major categories – the budgetary General Fund or budgetary Special Funds. References to these funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. Because GAAP fund definitions for accounting purposes differ from those of the budgetary basis General

and Special Funds, the GAAP funds are fully explained in Note 1 to the basic financial statements

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. All disbursements from the budgetary General Fund must be authorized by appropriations of the General Assembly.

Budgetary Special Funds are designated for specific purposes. The appropriate budgetary Special Fund is credited with tax or other revenue allocated to such fund and is charged with the related disbursements. Examples of specific uses of budgetary Special Funds include State park operations and fees charged by the Public Service Commission and the Division of Professional Regulation. Federal payments, unemployment compensation and local school funds are examples of non-appropriated Special Funds. Some Special Funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

Federal funds, which are credited to budgetary Special Funds, are not appropriated, but are subject to the review and approval of the State Budget Office and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Budget Director, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

Budgetary Control and Financial Management Systems

Disbursements are controlled by an encumbrance accounting system designed to provide information on the actual extent of the State's obligations and guard against over-committing available funds. Appropriations are reduced immediately when purchase orders are issued for goods and services. The total amount of budgetary General Fund cash disbursements, plus unliquidated encumbrances, cannot exceed the amount appropriated by the General Assembly for any specific budgetary line items by department.

Although the majority of the State's financial transactions are processed through the State's primary accounting system, certain Special Funds have financial activity external to that system, such as the Transportation Trust Fund, the Delaware State Housing Authority and Delaware State University. This activity is governed in strict adherence to legislative regulations and guidelines established by their boards. In addition, these entities are audited annually and produce published financial reports.

Budget Process

In the fall of each calendar year, State organizations submit requests for operating and capital funds for the next fiscal year to the Budget Office, and public hearings are held to review the requests. The Governor's proposed operating and capital budgets for the General Fund and Special Funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets. As amended, the budgets are expected to be enacted prior to July 1.

Appropriation Limit

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary General Fund revenue plus the unencumbered budgetary General Fund balance from the previous fiscal year. An exception to this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly. No appropriation may be made which exceeds 100% of estimated budgetary General Fund revenue plus the unencumbered General Fund balance from the previous fiscal year.

Tax Limitations

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees. Any tax or license fee increase or the imposition of any new tax or license fee must be passed by a three-fifths vote of each house of the General Assembly, rather than by a simple majority vote, except for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due.

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council (DEFAC), an entity created by executive order in 1977, is required to submit revenue forecasts for the budgetary General Fund and Transportation Trust Fund to the Governor and the General Assembly. An integral part of the State's budget process, the committee is comprised of 33 members, appointed by the Governor, from the executive and legislative branches of State government and the private sector.

DEFAC prepares revenue estimates six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A revenue forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, generally in September. Budgetary

General Fund and Transportation Trust Fund expenditure forecasts are generated for the current fiscal year in December, March, April, May and June.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with the State's constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

Strong Financial Management

Delaware's long tradition of tightly managed finances and a premier credit standing has been recognized by AAA bond ratings. Four principles form the core of this approach: (1) controlling base budget growth; (2) developing sound and responsible tax policy; (3) financial flexibility; and (4) maintaining sizable cash balances in reserve.

Beginning in fiscal year 2000, the three principal rating agencies, Moody's Investors Service, Fitch Ratings and Standard & Poor's, have rated Delaware's General Obligation bonds Aaa, AAA and AAA, respectively. Due to the quality of the State's financial management, manageable debt burden and above-average wealth, and income levels, these ratings were reaffirmed in both bond issuances during fiscal year 2005.

ECONOMIC CONDITIONS AND OUTLOOK

In recent years, Delaware's economic performance has largely exceeded national trends. Delaware participated fully in the late 1990's economic expansion and followed the nation through the economic downturn that followed. Throughout the recent business cycle, Delaware consistently posted lower unemployment rates than the United States. And, most recently, Delaware's labor markets have recovered, outpacing national growth rates in employment for three consecutive years. The State's job outlook remains healthy with employment growth rates expected to match or exceed national growth rates for the foreseeable future.

According to September 2005 data from the Bureau of Economic Analysis, the State's personal income, the majority of which consists of labor and proprietors income, grew by 6.7% from 2003 to 2004, compared with 6.0% for the Mid-Atlantic region[1] and the nation. Total state personal income in 2004 was $29.5 billion.

[1] The Mid-Atlantic region includes Delaware, Maryland, New Jersey, New York, and Pennsylvania.

Delaware was once regarded primarily as a manufacturing state with high concentrations of employment in chemicals and automobile manufacturing. Over the last two decades, however, strong FIRE (finance, insurance, and real estate) and service sectors have transformed Delaware's economy to the point at which its employment base is more similar to the U.S. economy. In fact, Delaware is now less reliant on manufacturing than the typical state with 8% of its 2004 employment base in manufacturing versus 11% for the nation. Overall, Delaware's largest employment sectors are within various service industries. The largest major sector is Professional and Business Services, accounting for roughly 61,700 jobs in 2004, a gain of nearly 4.8% from the previous year.

In the near term, Delaware faces some uncertainty resulting from Bank of America's recent acquisition of the MBNA Corporation. While the specifics have not yet been disclosed, it is acknowledged that there will likely be cost-cutting measures adopted that could negatively impact job levels in Delaware. The State's diverse economic base and competitive business environment, however, are expected to help mitigate such changes and allow the State to continue its positive economic trends.

Delaware's success in transforming its economy is confirmed by a broad array of economic and "quality of life" measures. In addition to the State's record of strong income and population growth, Delaware rate's of home ownership and education attainment are among the highest in the nation. Its unemployment and poverty rates are among the nation's lowest. Moreover, and perhaps unique to the State, Delaware has achieved these milestones while maintaining what is among the nation's most desirable business climates, especially among its neighbors in the high-cost northeast corridor.

INDEPENDENT AUDIT

The accounting firm of KPMG LLP has audited the accompanying Basic Financial Statements for the State of Delaware as of, and for the year ended, June 30, 2005. The Auditor's report on the financial statements is included in the financial section of this report.

The State Auditor of Accounts performs periodic financial and compliance audits of the various State departments, agencies and institutions of higher education and has primary responsibility for conducting audits under the federal Single Audit Act of 1986, as amended. Results of these audits may be found in separately issued audit reports and may be obtained by contacting the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

CERTIFICATE OF ACHIEVEMENT

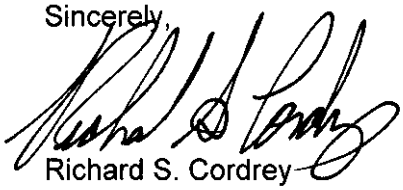
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This is the tenth consecutive year the State has received this prestigious award. To be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe our current report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this Comprehensive Annual Financial Report was made possible by the support of all State organizations and component units that supplied data. I wish to express my special appreciation to my staff and the Division of Accounting as well as all the other individuals and organizations that assisted in the preparation of this report. This report is also available on the Internet at: **http://www.state.de.us/finance/publications/financial_reports.shtml.**

Sincerely,



Richard S. Cordrey
Secretary of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Delaware

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Nancy L. Zielke
President

Jeffrey P. Ener
Executive Director

STATE OF DELAWARE
SELECTED STATE OFFICIALS
As of June 30, 2005

KEY ELECTED OFFICIALS:

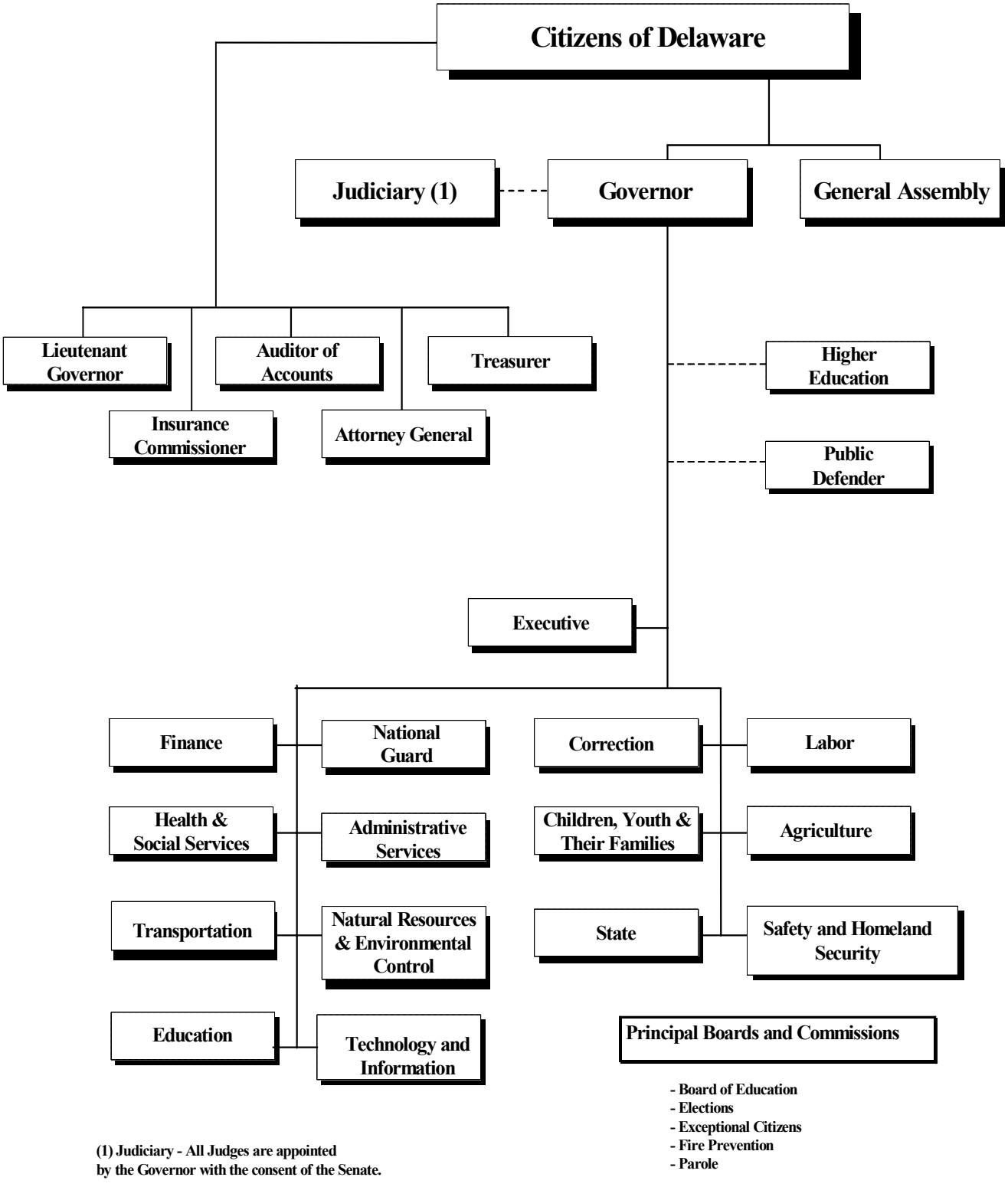
Governor	Ruth Ann Minner
Lt. Governor	John C. Carney, Jr.
Attorney General	M. Jane Brady
State Treasurer	Jack A. Markell
State Auditor	R. Thomas Wagner
Insurance Commissioner	Matthew Denn

KEY LEGISLATIVE OFFICIALS:

President Pro Tem of the Senate	Thurman G. Adams, Jr.
Senate Majority Leader	Harris B. McDowell
Senate Minority Leader	John C. Still
Speaker of the House of Representatives	Terry R. Spence
House of Representatives Majority Leader	Wayne A. Smith
House of Representatives Minority Leader	Robert F. Gilligan

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

Administrative Services	Christina Pochomis
Agriculture	Michael T. Scuse
Budget	Jennifer W. Davis
Corrections	Stanley W. Taylor, Jr.
Delaware Economic and Development Office	Judy McKinney-Cherry
Delaware State Housing Authority	Saundra R. Johnson
Education	Valerie A. Woodruff
Finance	Richard S. Cordrey
Health and Social Services	Vincent P. Meconi
Labor	Thomas B. Sharp
National Guard	(Major General) Francis D. Vavala
Natural Resources and Environmental Control	John A. Hughes
Personnel	Dana Jefferson
Department of Safety and Homeland Security	David B. Mitchell
Services for Children, Youth and Their Families	Carol Ann DeSantis
State	Harriet N. Smith-Windsor
Technology and Information	Thomas M. Jarrett
Transportation	Nathan Hayward


Citizens of Delaware
Judiciary (1)
Governor
General Assembly
Lieutenant Governor
Auditor of Accounts
Treasurer
Insurance Commissioner
Attorney General
Higher Education
Public Defender
Executive
Finance
National Guard
Correction
Labor
Health & Social Services
Administrative Services
Children, Youth & Their Families
Agriculture
Transportation
Natural Resources & Environmental Control
State
Safety and Homeland Security
Education
Technology and Information
Principal Boards and Commissions
- Board of Education
- Elections
- Exceptional Citizens
- Fire Prevention
- Parole
(1) Judiciary - All Judges are appointed by the Governor with the consent of the Senate.

State of Delaware
Comprehensive Annual Financial Report

Financial Section

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (State) as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units; and certain major funds (including Lottery and DelDot) which represent 94% of the assets and 93% of the revenues of the business-type activities. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinions on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

KPMG

The management's discussion and analysis on pages 4 through 19, the budgetary comparison schedules for the general fund and special fund on pages 100 through 105, the information about infrastructure assets reported using the modified approach on pages 106 and 107, and the schedules of required supplementary pension data on pages 108 through 110 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The supplementary financial information, introductory and statistical sections as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, in conjunction with other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 4, 2006

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's financial activities for the fiscal year ended June 30, 2005. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-ix of this report.

These financial statements have been prepared using the financial accounting model adopted by the Governmental Accounting Standards Board (GASB). This is the third year of implementation in Delaware for these new standards.

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $5.2 billion (net assets). Component units reported net assets of $596.1 million, an increase of $49.1 million from the previous year.
- The primary government's total net assets increased by $221.2 million (4.4%) in fiscal year 2005. Net assets of governmental activities increased by $275.0 million (13.6%) from the previous year, while net assets of the business-type activities decreased $53.7 million (1.8%) from the previous year. This increase relates primarily to the acquisition of capital assets.
- As of the close of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,444.2 million, an increase of $55.1 million (4.0%) in comparison with the prior year. This increase resulted primarily from increases in business taxes and grant revenues.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $999.2 million, or 30.5% of total general fund expenditures. For the most part, the unreserved fund balance is not available for new spending. These funds have been committed based on State statutes.
- The State's total general obligation debt increased during the fiscal year to $1,026.9 million, an increase of $14.4 million. Delaware's debt burden reflects the centralized role of the State government in financing capital projects that are typically funded by local governments, such as school districts, in other states. As of June 30, 2005, 32.4% or $332.6 million, of the State's outstanding debt was issued on behalf of local school districts which are fully supported by the property tax revenues of those districts.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains

other required supplementary information, in addition to the basic financial statements.

Government-wide financial statements The government-wide financial statements are designed to provide readers with a broad overview of the State of Delaware's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State of Delaware's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Delaware is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event that created the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State include transportation, lottery and unemployment services.

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State of Delaware is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical Community College Educational Foundation and 13 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 20-21 of this report.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the State of Delaware can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State maintains four individual governmental funds: the general fund, the capital projects fund, the federal fund and the local school district fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for these funds.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State of Delaware adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with this budget. The statement can be found on page 102 of this report.

The basic governmental fund financial statements can be found on pages 22-25 of this report.

Proprietary funds. The State maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The State uses enterprise funds to account for the State Lottery, Unemployment Trust Fund and the Department of Transportation operations.

Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Trust Fund and

the Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

The basic proprietary fund financial statements can be found on pages 26-28 of this report.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The pension trust funds are the primary fiduciary funds for the State. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 29-30 of this report. Combining fiduciary fund statements can be found on pages 112-115.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-98 of this report.

Other information In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumption for the State's pension trusts. RSI can be found on pages 99-110 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the State of Delaware, assets exceeded liabilities for the primary government by $5.2 billion at the close of the most recent fiscal year.

The largest portion of the State's net assets (67.8%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment); less any related debt used to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 7.2% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (25.0%), may be used at the State's

discretion, but, for the most part, these funds have been appropriated based on State statutes.

Net Assets as of June 30, 2005
State of Delaware's Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other non-current assets	$ 2,057,359	$ 1,977,745	$ 526,201	$ 581,737	$ 2,583,560	$ 2,559,482
Capital assets	2,061,595	1,822,570	3,447,854	3,377,007	5,509,449	5,199,577
Total assets	4,118,954	3,800,315	3,974,055	3,958,744	8,093,009	7,759,059
Long-term liabilities outstanding	1,262,497	1,229,869	863,108	820,485	2,125,605	2,050,354
Other liabilities	552,595	541,545	210,916	184,485	763,511	726,030
Total liabilities	1,815,092	1,771,414	1,074,024	1,004,970	2,889,116	2,776,384
Net assets:						
Invested in capital assets, net of related debt	983,693	767,977	2,546,144	2,561,502	3,529,837	3,329,479
Restricted	161,050	148,150	212,810	219,844	373,860	367,994
Unrestricted	1,159,119	1,112,774	141,077	172,428	1,300,196	1,285,202
Total net assets	$ 2,303,862	$ 2,028,901	$ 2,900,031	$ 2,953,774	$ 5,203,893	$ 4,982,675

The condensed financial information on the following page was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year.

Changes in Net Assets - Primary Government

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	$ 405,520	$ 428,206	$ 1,112,137	$ 1,045,533	$ 1,517,657	$ 1,473,739
Operating grants and contributions	905,737	894,779			905,737	894,779
Capital grants and contributions	5,000		105,924	92,680	110,924	92,680
General revenues:						
Taxes:						
Personal income taxes	882,020	777,969			882,020	777,969
Business taxes	1,375,828	1,356,081			1,375,828	1,356,081
Other taxes	264,165	240,296			264,165	240,296
Real estate taxes	317,664	289,346			317,664	289,346
Investment earnings	35,624	36,109	18,609	18,261	54,233	54,370
Gain (Loss) on sale of assets		(2,482)	561	(654)	561	(3,136)
Miscellaneous	37,570	37,105			37,570	37,105
Total revenues	4,229,128	4,057,409	1,237,231	1,155,820	5,466,359	5,213,229
Expenses:						
General Government	404,190	339,945			404,190	339,945
Health and Children's Services	1,450,505	1,399,354			1,450,505	1,399,354
Judicial and Public Safety	477,691	442,345			477,691	442,345
Natural Resources and Environmental Control	95,622	113,189			95,622	113,189
Labor	61,360	61,963			61,360	61,963
Education	1,592,035	1,422,046			1,592,035	1,422,046
Payment to Component Unit -						
General Government		1,952				1,952
Education	73,279	73,361			73,279	73,361
Interest Expense	44,003	50,201			44,003	50,201
Lottery			388,062	357,011	388,062	357,011
Transportation			566,110	497,499	566,110	497,499
Payment to Component Unit				8,852		8,852
Unemployment			92,284	114,136	92,284	114,136
Total expenses	4,198,685	3,904,356	1,046,456	977,498	5,245,141	4,881,854
Increase (Decrease) in net assets before transfers	30,443	153,053	190,775	178,322	221,218	331,375
Transfers	244,518	242,560	(244,518)	(242,560)		
Increase (decrease) in net assets	274,961	395,613	(53,743)	(64,238)	221,218	331,375
Net assets - beginning of year	2,028,901	1,633,288	2,953,774	3,018,012	4,982,675	4,651,300
Net assets - end of year	$ 2,303,862	$ 2,028,901	$ 2,900,031	$ 2,953,774	$ 5,203,893	$ 4,982,675

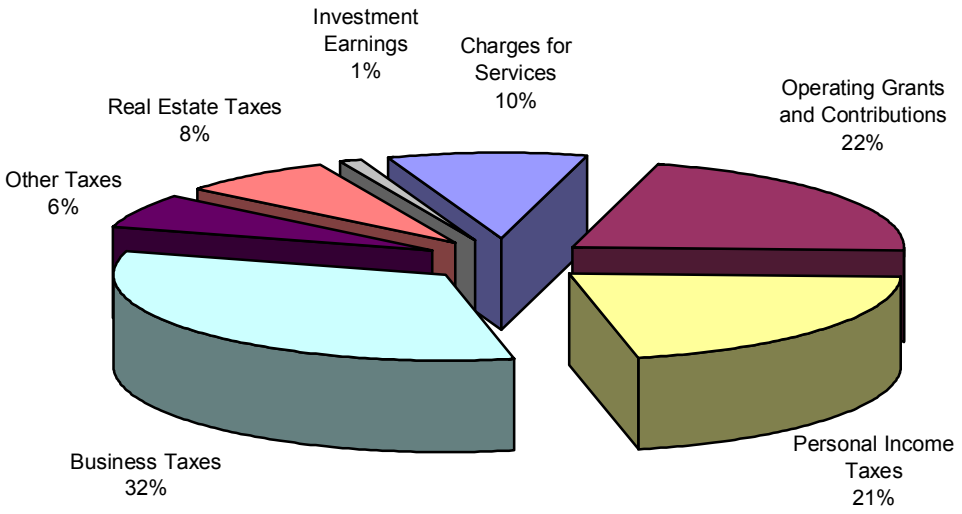
Governmental activities. Governmental activities increased the State's net assets by $275.0 million. The decrease by the business-type activities of $53.7 million is explained on the following page. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to

cover the net expenses of the governmental activities. Key elements of the increase in net assets are as follows:

Total general revenues increased $178.4 million (6.5%) based on growth primarily in personal income taxes of $104.0 million (13.4%) due, in part, to better jobs, income, and stock performance. The realty transfer tax grew by $28.3 million (9.8%) due to low mortgage rates and a continued building boom throughout the State.

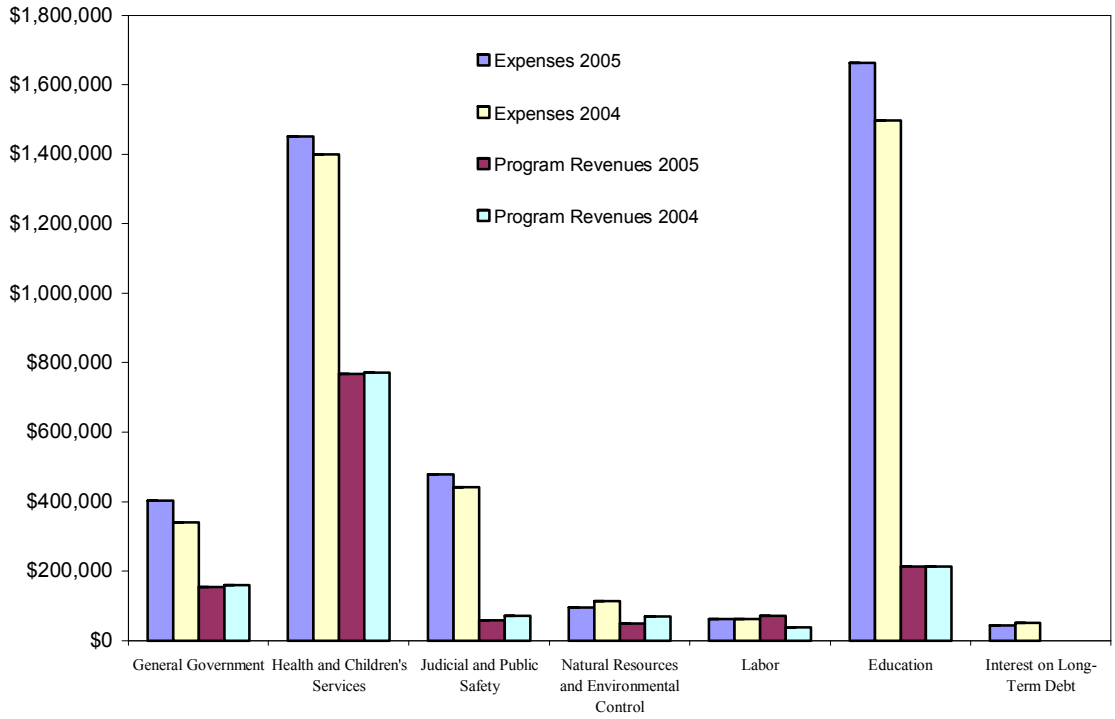
Program Revenues were approximately the same as the prior year decreasing by only $6.7 million (.5%). Charges for services were lower by $20.3 million for Health and Children's Services due to a change in the federal match for Medicaid payments.

Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2005 by $294.3 million, or 7.5%. The largest increase occurred in Education expenses which increased by $170.0 million due to a continued implementation of education initiatives such as the expansion of resource teachers to all elementary schools, expansion of public school transportation routes and an increase in student population. General government expenses increased by $64.2 million due to increased costs related to economic development and flood mitigation. Health and Children's Services spending increased by $51.2 million over the prior fiscal year, an increase attributable to escalating Medicaid costs and an increase in the population needing public assistance. Judicial and Public Safety expenses increased by $35.3 million due to increased caseloads within the court system and additional spending on homeland security. These increases were offset, in part, by a decrease of expenses incurred in Natural Resources and Environmental Control as expense for land purchases were capitalized. In addition, interest expense decreased by $6.2 million (12.4%) due to the timing of advanced refunding in prior years reducing the interest rates on state debt.

Expenses and Program Revenues – Governmental Activities



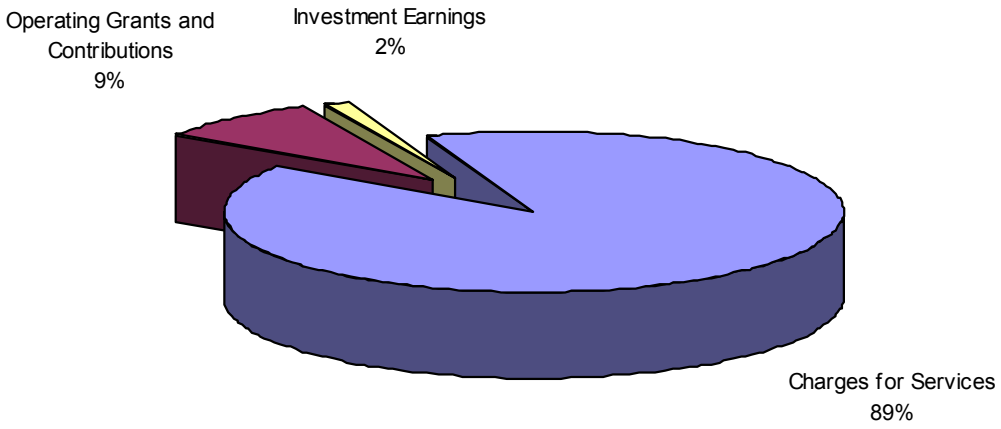
Business-type activities. Business-type activities decreased the State's net assets by $53.7 million. This decrease is comprised of a $7.0 million decrease in net assets by the Delaware Unemployment Insurance Trust Fund, a $47.0 million decrease in net assets by the Delaware Department of Transportation (DelDOT) and a $0.3 million increase in net assets of the Delaware State Lottery.

The decrease in net assets of the Delaware Unemployment Insurance Trust Fund is attributable to a 19.1% reduction in benefits paid which is partially offset by a 16.9% increase in unemployment tax collected during fiscal 2005. Even though benefits paid exceeded revenue collected by $18.8 million, fund equity remains adequate to pay average benefits for the next two years without additional revenue.

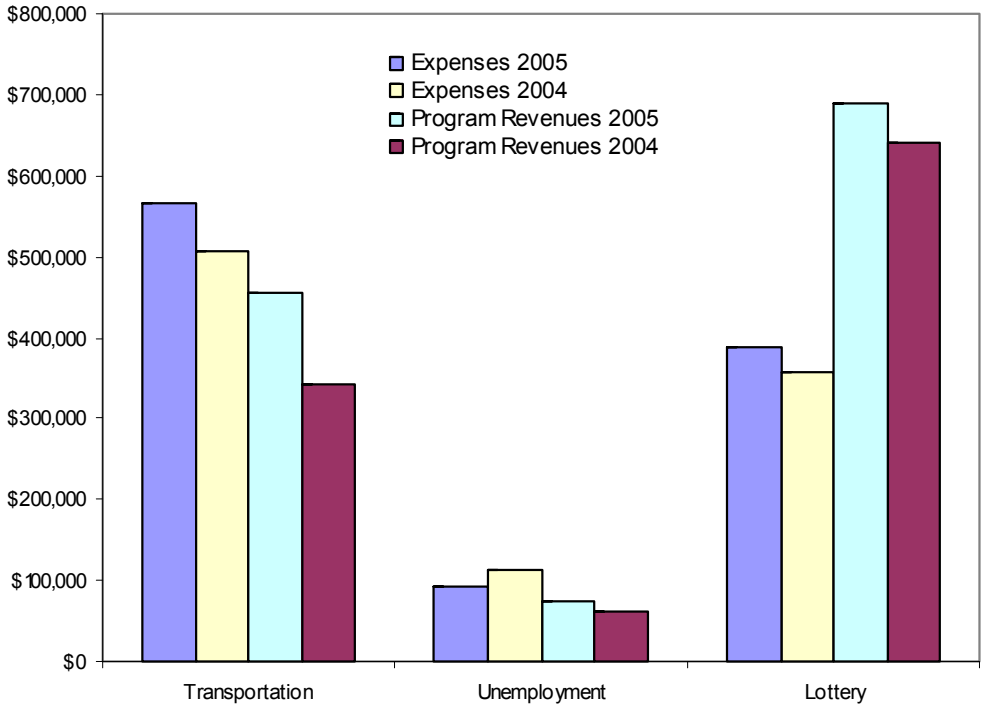
The DelDOT fund's net assets at June 30, 2005 were $47.0 million lower than June 30, 2004 primarily due to an increase in operating expenses. DelDOT's operating revenues increased by $7.6 million, or 2%, to $349.4 million due to an increase in motor vehicle document and registration fees. Operating expenses increased by $56.6 million to $528.6 million, with the largest contributing factors being a 31% increase in payroll expenses and a 21% increase in professional fees.

The Delaware State Lottery recorded an increase in net assets of $0.3 million in fiscal year 2005. Revenue increased by 7.6%, or $48.4 million, over last year due to increased sales of Powerball, Powerplay, instant and video lottery games. Lottery prize expenses also increased by 12.4%, or $6.6 million, over the previous year. By law, the Delaware Lottery's fund balance cannot exceed $1 million. Accordingly, the Lottery transferred over $300 million to other State funds.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State of Delaware's financing requirements. Unreserved fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

As of the end of the current fiscal year, the State of Delaware's governmental funds reported combined ending fund balances of $1,444.2 million, an increase of $55.1 million. Approximately 67.5% of the aggregate fund balances, $973.4 million, constitute unreserved fund balances. Of this total $333.7 million is committed to various uses based on State statutes. These uses include the operation and maintenance of the State's parks and recreational systems, land and water conservation, the Violent Crime Fund and the development and implementation of statewide information and technology projects.

Approximately $470.8 million of the fund balances are reserved to indicate that they are not available for new spending due to the following: 1) to liquidate contracts and purchase orders of the prior period ($275.6 million), 2) set aside for the budget reserve account ($161.1 million), 3) for inventories and other assets ($4.3 million), and 4) for prepaid items ($29.8 million).

The general fund accounts for the operation and administration of the State. Total general fund balance increased during the fiscal year by $97.9 million. Personal tax revenue increased by $95.8 million as a result of an increase in salaries and stock performance while spending in the general fund increased by $220.5 million or 7.2%. Educational programs account for $91.6 million of the increase.

At the end of the current fiscal year, unreserved fund balance of the general fund was $999.2 million, while total fund balance reached $1,313.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 30.5% of total general fund expenditures, while total fund balance represents 40.2% of that same amount.

Federal funds: Federal funds represent pass through grants used for designated purposes. Revenue increased by $50.8 million for the year while spending increased by $76.6 million, due to increased spending in social service programs such as Medicaid and public assistance to children, youth and their families.

Local School funds: These funds are used account for activities relating to the State's local school districts which are funded by locally raised real estate taxes and other revenues. The fund balance decreased by $5 million to $109.2 million as spending on school construction and salaries and benefits outpaced the increase in revenue from property taxes and other sources.

Capital Project Funds: Capital Project Funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled $173.6 million in fiscal 2005, an increase of $11.4 million. The State Legislation authorizes certain Capital Project expenditures prior to the issuance of bonds. The deficit in the Capital Projects Fund resulted from the State's debt management strategy of timing the issuance of bonds to take advantage of optimal bond market conditions. The State issued $132 million of general obligation bonds on September 15, 2005.

Proprietary funds. The State of Delaware's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Trust Fund and the DelDOT fund, all of which are considered to be major funds of the State.

The State's net assets decreased in fiscal 2005 by $53.7 million as a result of operations in the proprietary funds. Pages 11 and 12 discuss the changes in net assets of the business-type activities.

General Fund Budgetary Highlights

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance increased by $55.5 million (8.6%). Revenues were $142.4 million higher (5.2%) than the previous fiscal year. Continued growth in the Delaware economy resulted in greater than expected growth in employment and personal income. This translated into healthy growth in the economically sensitive revenue categories. For example, net personal income tax revenue grew by $101.3 million, or 13%. Like the nation, the State's positive economic performance was highlighted by exceptional strength in Delaware's housing market, which resulted in Realty Transfer Taxes growing by $25 million or over 28% for an unprecedented fourth year in a row.

Expenditures were $268.6 million or 10.5 % higher than the previous fiscal year. Salaries and other employment costs increased by $51.5 million (5.3%). Medicaid and Public Assistance grew by $32.6 million (8.4%) while grants increased $69.9 million (31.2%). In addition, debt service payments increased by $19.1 million (14.3%) and capital outlays by $19.0 million or 44.4%.

The original budget was modified to provide increased spending in salaries and services in education, health and children's services, self-insurance for health care and in minor capital renovations in facilities management. The final budget

consists of the original budget, encumbrances and multi-year project budgetary carry-forwards from the prior fiscal year, and all modifications to the original budget.

Authorized expenditures (final budget) exceeded actual expenditures in all departments, with significant budget variances in the following departments:

- $75.2 million in the Executive Department (salaries and self-insurance);
- $85.1 million in the Department of Education (salaries and educational programs);
- $37.7 million in the Department of Health and Social Services as well as the Department of Children, Youth and Their Families. (health programs);
- $47.5 million in Facilities Management in Administrative Services (capital renovations);
- $25.6 million in Department of Finance Services (capital renovations).

Special Fund Budgetary Highlights

At the end of the fiscal year, the total fund balance was $333.7 million or $20.6 million less than the previous year.

Revenues were $11.0 million (2.0%) less than the previous year. Other Non-Tax revenue was down by $31.3 million (7.8%). The decrease was due in part to the receipt of $41.5 million in one-time Federal Fiscal Relief in the previous year. The following revenue categories were up: Business Taxes, $5.3 million; License, Permits, Fines and Fees, $8.5 million; and Grants, $12.1 million.

Expenditures were $54.1 million higher than the previous year. Use of the monies from the Federal Fiscal Tax Relief and Master Tobacco Settlement to fund several initiatives, including smoking prevention, cancer prevention and treatment, a prescription drug program and housing development, resulted in increased expenditures.

Capital Assets and Debt Administration

Capital assets. The State of Delaware's investment in capital assets for its governmental and business-type activities, as of June 30, 2005, amounts to $5.5 billion (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $239.0 million (13.1%) and the increase for business type activities was $70.9 million (2.1%).

Major capital asset acquisitions during the current fiscal year included the following:

- Completion of new schools and renovations of existing schools of $229.7 million as well as completion of the Sussex County Courthouse for $11.3 million. In addition, construction-in-progress as of June 30, 2005 was $143.4 million for governmental activities. Approximately 75% of this total is related to the building of new schools and improvements to existing schools.
- As of June 30, 2005, the DelDOT fund had invested $3,447.7 million in capital assets, including roads, bridges, land and equipment, an increase of $70.9 million over June 30, 2004. The major contributing factor to the increase is an investment by Delaware Transit Corporation, a component unit of the DelDOT fund, of $16.4 million in vehicles and facilities and the Department's purchase of land for future use in capital projects of $51 million.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,464 center-line miles of roads and 1,371 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year using the Overall Pavement Condition (OPC) rating system. Bridge condition assessments are conducted, for the most part, every two years using the Bridge Condition Rating (BCR) system.

It is DelDOT's policy to maintain at least 75 percent of its highways and bridge system at a Good or Better condition rating. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition.

Of the State's 1,371 bridges that were rated in 2004, 1,029 or 75.1 percent received a Good or Better BCR rating, 18.6 percent were rated fair, and 6.3 percent received a substandard rating. Of the 7,163,000 square feet of bridge deck that was rated, 94 percent or 6,731,463 square feet received an OPC condition rating of Good or Better, 5.6 percent received a fair rating, and .4 percent received a substandard deck rating. In 2004, when 4,464 centerline miles were rated, 73.8 percent received a Good or Better OPC rating, 17.4 percent received a fair rating, and 8.8 percent received a poor rating.

The 2005 estimate to maintain and preserve the Department of Transportation's infrastructure was $138.5 million. Actual expenditure of $311.4 million includes items authorized in prior years.

Additional information on the State's capital assets can be found in Note 1 on pages 42-43, Note 12 on page 81-82 and on pages 107-108 in the Required Supplementary Information.

A summary of the State's primary government's capital assets, net of depreciation is provided below.

State of Delaware Capital Assets as of June 30
Net of Depreciation
(Expressed in Thousands)

	Government Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land	$ 361,390	$ 327,811	$ 169,364	$ 113,673	$ 530,754	$ 441,484
Land Improvements	52,958	40,096			52,958	40,096
Buildings	1,365,681	1,141,681	40,751	34,552	1,406,432	1,176,233
Easements	92,604	66,822			92,604	66,822
Equipment and Vehicles	45,577	42,897	74,048	80,301	119,625	123,198
Infrastructure			3,163,691	3,148,481	3,163,691	3,148,481
Construction-in-Progress	143,385	203,263			143,385	203,263
Total	$ 2,061,595	$ 1,822,570	$ 3,447,854	$ 3,377,007	$ 5,509,449	$ 5,199,577

Long-term debt. Beginning in fiscal year 2000, the three principal rating agencies, Moody's Investors Service, Fitch Ratings and Standard & Poor's, have rated Delaware's General Obligation bonds Aaa, AAA and AAA, respectively. Due to the quality of the State's financial management, manageable debt burden and above-average wealth and income levels, these ratings were reaffirmed during fiscal year 2005.

At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,026.9 million, backed by the full faith and credit of the State. Property tax revenues collected by the Local School Districts support $332.6 million of the balance. During the fiscal year ended June 30, 2005, the Local School Districts transferred $31.8 million of property tax revenue to the State to cover the related debt service.

The State of Delaware's total general obligation debt increased by only $14.4 million, or 1.4%, during fiscal year 2005. The State's indebtedness reflects a commitment to public and higher education facilities, prisons, State offices and other facilities. The State continues to seek opportunities to reduce the cost of such indebtedness through maintenance of its triple-A bond ratings and through bond refundings, which lower the overall cost of debt. On March 8, 2005, the State

issued $45.335 million in general obligation bonds refunding $48.266 million of similar bonds. The result was a reduction in future debt service payments of $2.4 million.

On February 1, 2005, the State issued $125 million in general obligation bonds choosing to sell $62.5 million as twenty-year bonds representing the local school districts share and the remaining $62.5 million as ten-year bonds. This rapid amortization is another effective strategy to minimize the State's indebtedness. The average life of Series A, which was sold to Delaware's retail investors, and Series B, which was competitively bid, was 8 years and the true interest cost was 3.58%.

The Delaware Department of Transportation Trust Fund had revenue bonds outstanding of $861.7 million as of June 30, 2005. The bonds do not constitute a debt of the State or a pledge of the general taxing power or the faith and credit of the State. Rather, the outstanding revenue bonds are obligations of the Delaware Transportation Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. On October 20, 2004, the Trust Fund issued $167.6 million of Transportation System Senior Revenue Bonds, of which $67.4 million was used to refund higher cost senior revenue bonds. The refunding reduced future debt service payments by $4.5 million. The remaining new money proceeds support the Authority's ongoing Capital Transportation Program. The Transportation Authority issues both insured bonds, rated 'AAA' by Standard & Poor's as well as uninsured bonds, rated 'Aa3' by Moody's Investors Service and 'AA' by Standard & Poor's.

The State has no constitutional debt limits. However, in 1991, the State enacted legislation to replace its previous limits with a three-part debt test. The 5% test restricts new debt authorization to 5% of budgetary General Fund revenue as projected on June 30 for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. The 15% test restricts debt issuance, if the annual payments on all outstanding debt exceed 15% of estimated budgetary General Fund and Trust Fund revenue for the next fiscal year. Finally, the Cash Balance Test restricts debt issuance if the debt service payable in any year exceeds the estimated cumulative cash balances for the following fiscal year.

Additional information on the State of Delaware's long-term debt can be found in Note 5 on pages 64-66 of this report. Further information concerning the State's debt limits can be found on 127 of the Statistical Section.

Economic Factors and Next Year's Budgets and Rates

The Delaware Economic and Financial Advisory Council (DEFAC) met on June 19, 2005, to prepare the final revenue and expenditure estimates upon which the fiscal

year 2006 operating and capital budgets would be based. The Department of Finance estimated that employment in Delaware had increased by 2.2% during fiscal year 2005, continuing the positive trend that began during fiscal year 2004. Fiscal year 2006 employment is expected to continue to grow, with job growth pegged at 1.8%.

The fiscal year 2006 operating and capital budgets meet budgetary spending limitations imposed by law. The budget reflects higher growth rates in revenues and carryover of surplus cash from fiscal year 2005. The fiscal year 2006 operating budget is $2,836.0 million, 9.1% greater than fiscal year 2005. The amount of cash allocated to the capital budget grew 10.4%, increasing from $255.0 million in fiscal year 2005 to $281.6 million in fiscal year 2006.

Requests for Information

This financial report is designed to provide a general overview of the State of Delaware's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Accounting, 540 South DuPont Highway, Thomas Collins Building, Suite 3, Dover, Delaware 19901. This CAFR can also be found at the following Internet address: **http://www.state.de.us/finance/default.shtml**.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, the Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2005
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	$ 335,187	$ 242,562	$ 577,749	$ 36,322
Cash and cash equivalents - restricted		2,021	2,021	14,552
Investments	374,618	142,849	517,467	39,108
Investments - restricted		2,457	2,457	3,048
Accounts and other receivables, net	193,873	39,556	233,429	28,648
Loans and notes receivable, net	4,898		4,898	13,102
Internal balances	4,385	(4,385)		
Inventories	4,275	12,657	16,932	539
Prepaid items	29,794	566	30,360	3,871
Other current assets				9,200
Total current assets	947,030	438,283	1,385,313	148,390
Noncurrent assets:				
Investments	946,294	49,247	995,541	147,768
Investments - restricted		7,393	7,393	23,404
Accrued interest receivable		592	592	
Accounts and other receivables, net	59,635		59,635	3,068
Loans and notes receivable, net	99,387	28,985	128,372	384,622
Capital assets				
Non-depreciable	597,379	3,333,055	3,930,434	135,706
Depreciable capital assets, net	1,464,216	114,799	1,579,015	308,483
Deferred bond issuance costs	5,013		5,013	4,828
Other restricted assets				2,765
Other noncurrent assets		1,701	1,701	7,704
Total noncurrent assets	3,171,924	3,535,772	6,707,696	1,018,348
Total assets	4,118,954	3,974,055	8,093,009	1,166,738
LIABILITIES				
Current liabilities:				
Accounts payable	314,309	45,545	359,854	18,067
Accrued liabilities	43,556	29,041	72,597	13,877
Interest payable	21,435	21,070	42,505	
Notes payable	2,350	40,000	42,350	5,368
Unearned revenues	12,969	367	13,336	386
Capital leases				32
Escheat liabilities	7,000		7,000	
Compensated absences	9,513	4,185	13,698	11
Claims and judgments	22,941	2,302	25,243	
Escrow deposits		2,006	2,006	110
Current Portion of Long term notes payable	1,161		1,161	
Current portion of general obligation long-term debt	113,781		113,781	
Current portion of revenue bonds		58,445	58,445	9,342
Current portion of bond issue premium, net	2,980		2,980	
Other current liabilities	600	7,955	8,555	2,562
Total current liabilities	552,595	210,916	763,511	49,755
Noncurrent liabilities:				
Compensated absences	110,377	8,109	118,486	866
Pension obligation	95,515		95,515	
Claims and judgments	63,506	12,525	76,031	
Escheat liabilities	28,000		28,000	
Escrow deposits				32,610
Liabilities payable from restricted assets		9,095	9,095	
Notes payable	3,593		3,593	49,008
General obligation long-term debt	913,166		913,166	
Revenue bonds		803,265	803,265	403,027
Bond issue premium, net	45,884	30,114	75,998	
Other long-term obligations	2,456		2,456	35,353
Total noncurrent liabilities	1,262,497	863,108	2,125,605	520,864
Total liabilities	1,815,092	1,074,024	2,889,116	570,619
NET ASSETS				
Invested in capital assets, net of related debt	983,693	2,546,144	3,529,837	292,427
Restricted				
Budgetary reserve	161,050		161,050	
Unemployment benefits		212,795	212,795	
Federal and state regulations				168,802
Bond covenants				27,982
Capital projects				36,420
Other restrictions		15	15	24,603
Unrestricted	1,159,119	141,077	1,300,196	45,885
Total net assets	$ 2,303,862	$ 2,900,031	$ 5,203,893	$ 596,119

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

Function	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
General Government	$ 404,190	$ 130,493	$ 23,419		$ (250,278)		$ (250,278)	
Health and Children's Services	1,450,505	117,708	652,291		(680,506)		(680,506)	
Judicial and Public Safety	477,691	55,026	33,034		(389,631)		(389,631)	
Natural Resources and Environmental Control	95,622	20,806	28,701		(46,115)		(46,115)	
Labor	61,360	2,910	38,701		(19,749)		(19,749)	
Education	1,592,035	78,577	129,591	5,000	(1,378,867)		(1,378,867)	
Payment to Component Unit - Education	73,279				(73,279)		(73,279)	
Interest	44,003				(44,003)		(44,003)	
Total governmental activities	4,198,685	405,520	905,737	5,000	(2,882,428)		(2,882,428)	
Business-type activities:								
Lottery	388,062	689,291				$ 301,229	301,229	
Transportation	566,110	349,397		105,924		(110,789)	(110,789)	
Unemployment	92,284	73,449				(18,835)	(18,835)	
Total business-type activities	1,046,456	1,112,137		105,924		171,605	171,605	
Total primary government	$ 5,245,141	$ 1,517,657	$ 905,737	$ 110,924				
Component units:								
Delaware State Housing Authority	$ 71,041	$ 30,299	$ 47,538	$ 498				$ 7,294
Diamond State Port Corporation	28,251	27,744		15,989				15,482
Riverfront Development Corporation	8,818	947	7,100	13,382				12,611
Delaware State University	75,215	26,425	22,082	10,506				(16,202)
Delaware Technical & Community College (DTCC) Educational Foundation	694	58	737					101
Delaware Charter Schools	53,233	1,701	4,324	75				(47,133)
Total component units	$ 237,252	$ 87,174	$ 81,781	$ 40,450				(27,847)
General Revenues								
Taxes:								
Personal income					882,020		882,020	
Business					1,375,828		1,375,828	
Real estate					317,664		317,664	
Other					264,165		264,165	
Payments from primary government								73,279
Investment earnings					35,624	18,609	54,233	3,856
Gain on sale of assets						561	561	65
Miscellaneous					37,570		37,570	(217)
Transfers					244,518	(244,518)		
Total General Revenues and Transfers					3,157,389	(225,348)	2,932,041	76,983
Change in Net Assets					274,961	(53,743)	221,218	49,136
Net Assets - Beginning of Year (as restated)					2,028,901	2,953,774	4,982,675	546,983
Net Assets - End of Year					$ 2,303,862	$ 2,900,031	$ 5,203,893	$ 596,119

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 326,966	$ 519	$ 7,702		$ 335,187
Investments	1,166,113		137,114	$ 17,685	1,320,912
Accounts receivable, net	65,446	6,324	222		71,992
Taxes receivable, net	77,412		17,079		94,491
Intergovernmental receivables, net	122	86,841	62		87,025
Due from other funds	35,186				35,186
Inventories	4,237		38		4,275
Prepaid items	14,870	14,924			29,794
Loans and notes receivable	85,371	18,914			104,285
Total assets	$ 1,775,723	$ 127,522	$ 162,217	17,685	$ 2,083,147
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 222,480	$ 36,662	$ 37,195	$ 17,972	$ 314,309
Accrued liabilities	43,556				43,556
Claims and judgments	850				850
Escheat liability	7,000				7,000
Due to other funds		30,801			30,801
Other obligations	600				600
Deferred revenues	187,473	38,534	15,828		241,835
Total liabilities	461,959	105,997	53,023	17,972	638,951
Fund balances (defecit)					
Reserved for:					
Encumbrances	134,376	46,773	8,104	86,373	275,626
Inventories	4,237		38		4,275
Prepaid items	14,870	14,924			29,794
Budgetary reserve	161,050				161,050
Unreserved (deficit)	999,231	(40,172)	101,052	(86,660)	973,451
Total fund balances (deficit)	1,313,764	21,525	109,194	(287)	1,444,196
Total liabilities and fund balances	$ 1,775,723	$ 127,522	$ 162,217	$ 17,685	$ 2,083,147

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 1,444,196
Amounts reported for governmental activities in the statement of net assets are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 361,390	
Land improvements	52,958	
Buildings	1,365,681	
Easements	92,604	
Equipment and vehicles	45,577	
Construction in progress	143,385	
		2,061,595
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		228,866
Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Interest payable	$ (21,435)	
Claims and judgments	(85,597)	
Compensated absences	(119,890)	
Pension obligation	(95,515)	
General obligation long-term debt and related accounts	(1,070,798)	
Notes Payable (current and long-term)	(7,104)	
Other long term obligations	(2,456)	
Escheat liability	(28,000)	
		(1,430,795)
Net assets of governmental activities		$ 2,303,862

See Accompanying Notes to the Financial Statements

STATE OF DELWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
REVENUES					
Personal taxes	$ 878,189				$ 878,189
Business taxes	1,378,017				1,378,017
Other tax revenue	264,845		$ 315,504		580,349
Licenses, fees, permits and fines	295,121		890		296,011
Rentals and sales	20,292	$ 11	36,943		57,246
Federal government	35,583	892,444	1,676		929,703
Interest & other investment income	30,107	244	5,273		35,624
Other	233,251		33,406		266,657
TOTAL REVENUES	3,135,405	892,699	393,692		4,421,796
EXPENDITURES					
Current:					
General government	482,826	20,271			503,097
Health and children's services	866,193	613,807			1,480,000
Judicial and public safety	435,735	36,671			472,406
Natural resources and environmental control	130,759	30,081			160,840
Labor	29,295	38,861			68,156
Education	1,115,589	146,883	371,362		1,633,834
Payment to component unit - Education	57,433		15,846		73,279
Capital outlay				$ 173,561	173,561
Debt service:					
Principal	107,890				107,890
Interest and other charges	46,160				46,160
Costs of issuance of debt				533	533
TOTAL EXPENDITURES	3,271,880	886,574	387,208	174,094	4,719,756
REVENUES OVER (UNDER) EXPENDITURES	(136,475)	6,125	6,484	(174,094)	(297,960)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Transfers in	388,676		20,362		409,038
Transfers out	(104,204)		(31,845)	(50,145)	(186,194)
Issuance of general obligation bonds				170,559	170,559
Premiums on bond sales				9,788	9,788
Payment to bond refunding agent	(50,145)				(50,145)
TOTAL OTHER SOURCES (USES) OF FINANCIAL RESOURCES	234,327		(11,483)	130,202	353,046
Net change in fund balances	97,852	6,125	(4,999)	(43,892)	55,086
Fund balances - beginning	1,215,912	15,400	114,193	43,605	1,389,110
Fund balances (deficits) - ending	$ 1,313,764	$ 21,525	$ 109,194	$ (287)	$ 1,444,196

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
Reconciliation of the Net Changes in Fund Balances - Total Governmental Funds to Change in Net Assets of Governmental Activities
(Expressed in Thousands)

Net Changes in Fund Balances		$ 55,086
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		239,025
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		28,117
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of		
Debt service principal repayments	107,890	
New debt issued (face value)	(170,559)	
Premium received	(9,788)	
Payment to refunding agent	50,145	
Issuance costs	533	
Amortization of premium/issuance costs	2,105	
		(19,674)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued interest expense		52
Claims and judgments		(10,878)
Notes payable		(7,104)
Compensated absences		(2,722)
Pension obligation		(6,897)
Physician loan and scholarships		(44)
Change in Net Assets of Governmental Activities		$ 274,961

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005
(Expressed in Thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Asset				
Current Assets:				
Cash and cash equivalents	$ 213,767	$ 5,804	$ 22,991	$ 242,562
Cash and cash equivalents - restricted			2,021	2,021
Investments			142,849	142,849
Investments - restricted		2,457		2,457
Accounts receivable, net	6,238	6,444	6,763	19,445
Taxes receivable, net	17,009			17,009
Intergovernmental receivables, net	449		1,853	2,302
Interest receivable			800	800
Inventories			12,657	12,657
Prepaid items		489	77	566
Total current assets	237,463	15,194	190,011	442,668
Noncurrent assets:				
Investments			49,247	49,247
Investments - restricted		7,393		7,393
Interest receivable			592	592
Loans and notes receivable			28,985	28,985
Other assets		1,701		1,701
Capital assets, non-depreciable			3,333,055	3,333,055
Capital assets, depreciable, net		199	114,600	114,799
Total noncurrent assets		9,293	3,526,479	3,535,772
Total assets	237,463	24,487	3,716,490	3,978,440
Liabilities				
Current liabilities				
Accounts payable		4,532	41,013	45,545
Accrued liabilities	22,254		6,787	29,041
Interest payable			21,070	21,070
Deferred revenue			367	367
Compensated absences			4,185	4,185
Claims and judgments			2,302	2,302
Prizes liability		5,541		5,541
Escrow deposits			2,006	2,006
Note payable			40,000	40,000
Current portion of revenue bonds			58,445	58,445
Tax refunds payable	2,414			2,414
Due to other funds		4,385		4,385
Total current liabilities	24,668	14,458	176,175	215,301
Noncurrent Liabilities				
Compensated absences			8,109	8,109
Claims and judgments			12,525	12,525
Liabilities payable from restricted assets		9,095		9,095
Revenue bonds			803,265	803,265
Bonds issue premium, net			30,114	30,114
Total noncurrent liabilities		9,095	854,013	863,108
Total liabilities	24,668	23,553	1,030,188	1,078,409
Net assets				
Invested in capital assets, net of related debt		199	2,545,945	2,546,144
Restricted for:				
Unemployment benefits	212,795			212,795
Other			15	15
Unrestricted		735	140,342	141,077
Total net assets	$ 212,795	$ 934	$ 2,686,302	$ 2,900,031

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in thousands)

	Business-Type Activities - Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Operating revenues				
Unemployment taxes	$ 73,449			$ 73,449
Gaming revenue		$ 689,291		689,291
Pledged revenues				
Turnpike revenue			$ 60,703	60,703
Motor vehicle and related revenue			234,098	234,098
Turnpike revenue			30,161	30,161
Passenger fares			9,323	9,323
Miscellaneous			15,112	15,112
Total operating revenues	73,449	689,291	349,397	1,112,137
Operating expenses				
Unemployment benefits	92,284			92,284
Cost of sales		321,042		321,042
Prizes		59,830		59,830
Transportation			500,596	500,596
Depreciation		131	19,654	19,785
General and administrative		7,059	8,302	15,361
Total operating expenses	92,284	388,062	528,552	1,008,898
Operating income (loss)	(18,835)	301,229	(179,155)	103,239
Nonoperating revenues (expenses)				
Interest and investment revenue	11,800		6,809	18,609
Interest expense			(37,558)	(37,558)
Gain on disposal of assets			561	561
Total nonoperating revenues (expenses)	11,800		(30,188)	(18,388)
Income (loss) before transfers and capital contributions	(7,035)	301,229	(209,343)	84,851
Capital contributions			105,924	105,924
Transfers in			83,842	83,842
Transfers out		(300,922)	(27,438)	(328,360)
Change in net assets	(7,035)	307	(47,015)	(53,743)
Total net assets - beginning	219,830	627	2,733,317	2,953,774
Total net assets - ending	$ 212,795	$ 934	$ 2,686,302	$ 2,900,031

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in thousands)

	Business-Type Activities-Enterprise Funds			
	Unemployment	**Lottery**	**DELDOT**	**Total**
Cash flows from operating activities				
Receipts from employers	$ 72,850			$ 72,850
Payments for insurance claims	(100,418)		$ (2,711)	(103,129)
Receipts from customers and users		$ 687,386	342,686	1,030,072
Other operating receipts			1,470	1,470
Payments to suppliers for goods and services		(44,580)	(512,375)	(556,955)
Payments to employees for services		(1,512)		(1,512)
Payments for prizes		(63,993)		(63,993)
Payment for commissions		(286,021)		(286,021)
Net cash provided (used) by operating activities	(27,568)	291,280	(170,930)	92,782
Cash flows from noncapital financing activities				
Transfers in			83,842	83,842
Transfers out		(298,259)	(5,764)	(304,023)
Net cash provided (used) by noncapital financing activities		(298,259)	78,078	(220,181)
Cash flows from capital and related financing activities				
Capital grants			114,504	114,504
Purchases of capital assets			(114,896)	(114,896)
Principal paid on capital debt			(53,920)	(53,920)
Interest paid on capital debt			(44,816)	(44,816)
Proceeds from sale of equipment			3,152	3,152
Proceeds from issuance of debt			207,550	207,550
Premium from bond sale			9,223	9,223
Payment to escrow agent for refunding of debt			(67,425)	(67,425)
Net cash provided by capital and related financing activities			53,372	53,372
Cash flows from investing activities				
Interest and investment revenues	11,800		5,128	16,928
Purchase of investments			(4,845)	(4,845)
Proceeds from sales and maturities of investments		1,935	41,192	43,127
Net cash provided by investing activities	11,800	1,935	41,475	55,210
Net increases (decrease) in cash/cash equivalents	(15,768)	(5,044)	1,995	(18,817)
Cash/cash equivalents - beginning of year	229,535	10,848	23,017	263,400
Cash/cash equivalents - end of year	$ 213,767	$ 5,804	$ 25,012	$ 244,583
Reconciliation of operating income (loss) to net cash used by operating activities				
Operating Income (loss)	$ (18,835)	$ 301,229	$ (179,155)	$ 103,239
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense		131	19,654	19,785
Decrease (increase) in assets:				
Decrease (increase) in receivables, net	(657)	(1,905)	(2,575)	(5,137)
Decrease (increase) in inventories			(2,199)	(2,199)
Decrease (increase) in prepaid items		(65)	(5)	(70)
Increase (decrease) in liabilities				
Increase (decrease) in accounts and other payables	(9,077)	(3,962)	(7,614)	(20,653)
Increase (decrease) in accrued liabilities	943	17	(2,666)	(1,706)
Increase (decrease) in accrued expenses		(4,165)	449	(3,716)
Increase (decrease) in accrued payroll and related expenses			3,181	3,181
Increase (decrease) in due to/from other governments	58			58
Net cash provided (used) by operating activities	$ (27,568)	$ 291,280	$ (170,930)	$ 92,782
Supplemental disclosures of noncash investing and capital related financing activities				
Interest capitalized on loan	$	$	$ 1,911	$ 1,911
Transfers of land to other State agencies	$	$	$ 21,674	$ 21,674

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005
(Expressed in thousands)

	Pension Trust Funds	Investment Trust Funds	Agency Funds
Assets			
Cash and cash equivalents	$ 6,192	$ 12	$ 23,954
Receivables:			
Employer contributions	5,639		
Member contributions	1,985		
Other receivables			24,704
Investments, at fair value:			
Domestic fixed income	1,079,668	4,382	
Domestic equities	1,653,990	6,715	
Pooled equity & fixed income	1,687,511	6,851	
Alternative investments	612,614	2,488	
Short term investments	223,814	906	9,817
Foreign equities	633,768	2,573	
Total assets	5,905,181	23,927	58,475
Liabilities			
Accounts payable			58,475
Benefits payable	774		
Accrued administrative expenses	330		
Total liabilities	1,104		58,475
Net Assets			
Assets held in trust for pension benefits and pool participants	$ 5,904,077	$ 23,927	$

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in thousands)

	Pension Trust Funds	Investment Trust Funds
Additions		
Contributions:		
Employer contributions	$ 137,718	
Transfer of assets from outside the system	2,546	$ 7,115
Member contributions	43,421	
Other	37	
Total contributions	183,722	7,115
Investments:		
Investment earnings	84,543	343
Net increase in fair value of investments	458,956	1,281
Total investment earnings	543,499	1,624
Less investment manager/advisor/custody fees	(18,495)	(76)
Less investment administrative expenses	(321)	(1)
Net investment earnings	524,683	1,547
Total additions	708,405	8,662
Deductions		
Transfer of assets outside the system	2,224	
Pension payments	296,092	
Refunds of contributions to members	2,819	
Group life payments	4,601	
Administrative expenses	4,554	
Total deductions	310,290	
Change in net assets	398,115	8,662
Net assets - beginning of year	5,505,962	15,265
Net assets - end of year	$ 5,904,077	$ 23,927

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2005
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	All Component Units Total
ASSETS							
Current assets:							
Cash and cash equivalents	$ 167	$ 3,449	$ 3,379	$ 18,972	$ 81	$ 10,274	$ 36,322
Cash and cash equivalents - restricted		13,638	121			793	14,552
Investments	34,730			2,257	2,121		39,108
Investments - restricted					3,048		3,048
Accounts and other receivables, net	19,875	3,183	213	4,916		461	28,648
Loans and notes receivable, net	13,100				2		13,102
Inventories		539					539
Prepaid items	3,006	375	24			87	3,492
Deferred bond issuance costs	379						379
Other current assets				9,086	15	99	9,200
Total current assets	71,257	21,184	3,737	35,231	5,267	11,714	148,390
Noncurrent Assets:							
Long-term investments	143,030		4,738				147,768
Long-term investments - restricted			9,583	13,760	61		23,404
Accounts and other receivables, net	3,068						3,068
Loans and notes receivable, net	382,168		2,060	394			384,622
Capital assets - non-depreciable	6,420	28,887	49,811	50,338		250	135,706
Capital assets - depreciable, net	15,819	121,578	20,354	116,247		34,485	308,483
Deferred bond issuance costs	4,619			209			4,828
Other restricted assets					2,765		2,765
Other noncurrent assets			3,112	3,950		642	7,704
Total noncurrent assets	555,124	150,465	89,658	184,898	2,826	35,377	1,018,348
Total assets	626,381	171,649	93,395	220,129	8,093	47,091	1,166,738
LIABILITIES							
Current liabilities:							
Accounts payable	5,552	179	4,516	6,918		902	18,067
Accrued liabilities	1,251	2,575	165	5,629		4,257	13,877
Deferred revenue	134	143	89			20	386
Current portion - capital leases		32					32
Compensated absences	11						11
Escrow deposits			4			106	110
Notes payable	2,283	2,985		100			5,368
Current portion of revenue bonds	7,752		240	1,350			9,342
Current portion of other long-term debt			205	545		1,812	2,562
Total current liabilities	16,983	5,914	5,219	14,542		7,097	49,755
Noncurrent liabilities:							
Compensated absences	866						866
Escrow deposits	32,610						32,610
Notes payable	555	48,120		333			49,008
Revenue bonds	333,992		4,740	64,295			403,027
Long-term debt			6,907	1,814		26,117	34,838
Other noncurrent liabilities	515						515
Total noncurrent liabilities	368,538	48,120	11,647	66,442		26,117	520,864
Total liabilities	385,521	54,034	16,866	80,984		33,214	570,619
NET ASSETS							
Invested in capital assets, net of related debt	22,240	99,328	58,073	103,631		9,155	292,427
Restricted							
Federal and state regulations	158,282			4,628	5,892		168,802
Bond covenants	27,982						27,982
Capital projects		13,638	9,213	13,569			36,420
Other	10,816			12,262		1,525	24,603
Unrestricted	21,540	4,649	9,243	5,055	2,201	3,197	45,885
Total net assets	$ 240,860	$ 117,615	$ 76,529	$ 139,145	$ 8,093	$ 13,877	$ 596,119

* Fiscal year end December 31, 2004

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Component Units:				
Delaware State Housing Authority	$ 71,041	$ 30,299	$ 47,538	$ 498
Diamond State Port Corporation	28,251	27,744		15,989
Riverfront Development Corporation	8,818	947	7,100	13,382
Delaware State University	75,215	26,425	22,082	10,506
Delaware Technical & Community College (DTCC) Educational Foundation	694	58	737	
Delaware Charter Schools	53,233	1,701	4,324	75
Total component units	$ 237,252	$ 87,174	$ 81,781	$ 40,450

General Revenues

Payments from primary governments

Investment earnings (loss)

Gain (Loss) on sale of assets

Impairment of Assets

Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning of year (as restated)

Net assets - end of year

* Fiscal year ended December 31, 2004

See Accompanying Notes to the Financial Statements

Net (Expense) Revenue and Changes in Net Assets						
Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	Totals
$ 7,294						$ 7,294
	$ 15,482					15,482
		$ 12,611				12,611
			$ (16,202)			(16,202)
				$ 101		101
					$ (47,133)	(47,133)
						(27,847)
			26,245		47,034	73,279
4,632	(2,103)	287	656	144	240	3,856
				65		65
		719	(1,741)		805	(217)
4,632	(2,103)	1,006	25,160	209	48,079	76,983
11,926	13,379	13,617	8,958	310	946	49,136
228,934	104,236	62,912	130,187	7,783	12,931	546,983
$ 240,860	$ 117,615	$ 76,529	$ 139,145	$ 8,093	$ 13,877	$ 596,119

See Accompanying Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with Accounting Principles Generally Accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and organizations, bureaus, boards, commissions, and authorities that make up the State's legal entity. The State's 19 local school districts, which are not legally separate, are included in the reporting entity of the primary government. The DelDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the State's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the State.

Financial accountability is defined in GASB Statement No.14, "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units." The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State, regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Blended Component Unit

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2005 may be obtained by writing to the State Board of Pension Trustees and Office of the Pensions, McArdle Building, and Suite #1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year end of December 31, 2004, each discretely presented component unit has a June 30, 2005 fiscal year end.

Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The Authority administers the role of providing affordable housing as a key aspect of State policy. The Authority's relationship with the State is such that exclusion of the Authority from the State's basic financial statements would cause the statements to be misleading or incomplete. The Authority is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors, (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans, (3) purchase qualified mortgage loans from mortgage lenders, and (4) apply for and receive assistance and subsidies under programs from the Federal Government and others.

Diamond State Port Corporation

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints the 8 of the 15 members of the board of directors, with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's basic financial statements would cause the statements to be misleading or incomplete.

Riverfront Development Corporation

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints 8 of the 19 board members; however, five of the remaining seven directors consist of the Governor and four State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

Delaware State University

Delaware State University (DSU) is a public institution of higher education funded primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants and private donations and grants. The Board of Trustees is comprised of 11 members, 6 appointed by the Governor of Delaware and 5 elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board.

Delaware Technical and Community College Educational Foundation

Delaware Technical and Community College Educational Foundation (DTCC Foundation), a component unit of the Delaware Technical and Community College, was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation restated the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the DTCC Foundation be limited to such educational purposes that come under Section 501(c)(3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to the Delaware Technical and Community College (DTCC) and providing financial assistance to qualified students. The DTCC Foundation has a fiscal year end of December 31, 2004.

Delaware Charter Schools

Delaware Charter Schools are public schools funded primarily through State appropriations. State appropriations without restrictions as to use are reported by the Charter Schools in general revenue. Additional funding is derived from unrestricted locally raised real estate taxes and federal grants passed through from the primary government and private donations. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices or from the Office of the Auditor of Accounts, The Townsend Building, Suite #1, 401 Federal Street, Dover, DE 19901.

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority. The primary government's account-

ability for the Authority does not extend beyond making the appointments. The financial activities of the Authority are not included in the State's financial statements.

The Governor appoints eight members of the governing board of the University of Delaware. The remaining 20 members are elected separately. The primary government' s accountability does not extend beyond State grants to the University. The financial activities of the University are not included in the State's financial statements.

Jointly Governed Organization

The Delaware River and Bay Authority, a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey which border the Delaware River and Delaware Bay. The Authority is governed by 12 commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. The Authority is autonomous from a day-to-day operations perspective and neither State is obligated for the Authority's debt. The Authority is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the State and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the State is reported separately from certain legally separate component units for which the State is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period, subject to availability. All other

revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven and reimbursement type grants is recognized, subject to availability, when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental Funds

The State reports the following major governmental funds:

General Fund - The general fund is the State's primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

Federal Fund - The federal fund accounts for all activities relating to the State's federal grant programs.

Local School District Fund - The local school district fund accounts for activities relating to the State's local school districts funded by locally raised real estate taxes and other revenue.

Capital Projects Fund - Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by proprietary and fiduciary funds) are accounted for in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the General Fund.

Proprietary Funds

Proprietary Funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the general public on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Unemployment Fund, Lottery Fund and DelDOT fund are charges to customers for sales and services.

The Lottery recognizes revenue from on-line games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The State reports the following major proprietary funds:

DelDOT Fund- The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Authority.

Unemployment Fund - The unemployment fund accounts for the activities relating to the State's unemployment insurance program.

Lottery Fund - The lottery fund accounts for the activities relating to the State Lottery program.

Fiduciary Funds

The accounts of the pension and investment trust funds are reported using the flow of economic resources measurement focus and are maintained on the accrual basis of accounting. For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Agency funds are custodial in nature and do not present results of operations and, therefore, do not have a measurement focus.

The State reports the following fiduciary funds:

Agency Funds - Agency funds are custodial in nature and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and certain property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

Pension Trust Funds - Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits of the Delaware Public Employees' Retirement System (DPERS) (Note 14*).*

Investment Trust Funds - Investment trust funds are used to account for external investment pools where a government commingles the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund

equity for the Delaware Public Employee Retirement System's external investment pool (Note 14).

(c) Assets, Liabilities, and Net Assets or Equity

Deposits and investments

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be cash equivalents. Investment securities with maturities of greater than one year are reported as long-term investments.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost (Note 2). Investment securities with remaining maturities of greater than one year are identified as long-term investments.

In March 2003, the GASB issued Statement No. 40 – "*Deposit and Investment Risk Disclosures",* an amendment to GASB Statement No. 3, Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements. The new standard requires that state and local government, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure. The State has implemented the provisions of this Statement for the fiscal year ended June 30, 2005.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds (Note 3).

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Delaware State Lottery's mandatory deposit with the Multi-State Lottery and the annuities for future installment prize payments are recorded as restricted assets, as are any assets of the Delaware State University, the Diamond State Port Corporation and the Riverfront Development Corporation that are subject to external restrictions.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and component units.

Capital assets are defined by the State as assets with an initial, individual cost of more than $25,000 at the date of acquisition and an estimated useful life in excess of one year. This threshold was increased from $15,000 effective, July 1, 2004. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $25,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed $1 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous capitol-related artifacts and furnishings. These assets are held for public exhibition, education or research in furtherance of public service rather than financial gain; they are protected, kept unencumbered, cared for and preserved; and they are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives as provided on the following page.

Asset	Primary Government Years	Component Units Years
Buildings and Building Improvements	40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 10	3 - 40
Vehicles	7	N/A

The State has elected to use the "modified approach" to account for certain infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Compensated Absences

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make payments.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt

issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

The State Constitution provides that certain excess unencumbered budgetary General Funds at the end of a fiscal year must be placed in a reserve account (the "Budget Reserve Account"). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated General Fund revenue for the ensuing fiscal year. Total funding of the Budget Reserve Account was $161.1 million at June 30, 2005. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability. Amounts not collected within 60 days of fiscal year end are recorded as Deferred Revenue. In addition to monetary transactions, Federal grants also include non-monetary transactions related to food stamps.

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. Delaware's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $12.4 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $25.2 million are recorded in the General Fund as part of "other" revenue and as Miscellaneous general revenue on the Government-wide Statement of Activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

NOTE 2. CASH, INVESTMENTS AND RESTRICTED ASSETS

***The Cash Management Policy Board**:* The policy for the investment of State funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in the DPERS and money held under the State deferred compensation program.

Investment Guidelines and Management:

The State's Cash Management Policy categorizes all cash and special purpose funds for which the State is financially accountable as follows:

A. Cash Accounts**:** Cash accounts divide the State's available cash into three parts:

1) Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.

2) Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts will be managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State will manage its short-term (12- to 18-month) investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.

3) Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board will direct the funding of a third part. This fund shall be managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State will manage its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.

B. Special Purpose Accounts. There are two primary types of Special Purpose Accounts:

1) Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.

2) Authority Accounts: The State's Authorities (State Agencies, Local School Districts and Component Units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The investment guidelines, adopted by the Board provide, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances. The State's Cash Management Policy is available on the Internet at http://www.state.de.us/treasurer/default.shtml.

Custodial Credit Risk

Collateralization Requirements: All State deposits are required by law to be collateralized by direct obligations of, or obligations which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than $5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has had for the last two years, a return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

(a) U.S. Government securities;

(b) U.S. Government agency securities;

(c) Federal Home Loan Board letters of credit;

(d) State of Delaware securities; or

(e) Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2005, the financial institutions maintaining the State's investment pool satisfied the criteria listed above and the investments managed by those institutions did not require collateralization.

Cash and cash equivalents consist of demand deposits, short-term money market funds and other deposits held by financial institutions, generally with a maturity of three months or less when purchased. Cash and cash equivalents are reported as deposits.

Cash and cash equivalents, as reported on the statement of net assets, may be under the control of the State Treasurer or other administrative bodies as determined by the Cash Management Policy Board. All cash deposited with the State Treasurer by State organizations is maintained by the Treasurer in various pooled investment funds (State Investment Pool). The State Treasurer invests the deposited cash, including the cash float in short-term securities and other investments.

Primary Government

Deposits

At June 30, 2005, the carrying value and the bank balances of the State's deposits were $604,157,000 and $673,443,000 respectively. Of the bank balances, $32,786,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and/or collateralized with securities held by the State or by its agent in the State's name. $426,890,000 is uninsured and uncollateralized. The remaining $213,767,000 represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury. (Disclosures relating to $5,771,000 of Cash and all Investments of the Delaware Public Employees Retirement System (DPERS) are found on pages 52-56.)

Investments

The table below provides information about the custodial credit risks associated with the State's investments. The investments disclosed below are uninsured, unregistered, and the securities are held by the counterparty or by its trust department or agent but not in the State's name.

Primary Government Investments

(Expressed in Millions)

Investment Type	Fair Value
Commercial Paper	$ 105,268
U.S. Government Agency Securities	272,293
Corporate Obligations	245,738
Government Agency Bonds and Notes	496,047
Foreign Government Securities	824
Master Notes	3,297
Municipal Bonds	99,395
Certificates of Deposit	36,025
Other Pooled Investments	10,498
Private Placements	97,009
TOTAL	$ 1,366,394

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. Although the State's Cash Management

Policy does not limit total portfolio maturities, it provides maximum maturity restrictions for each of the investment account types as described below.

Cash Account The maximum maturity for any investment at the time of purchase for the Cash Account shall be one year.

Liquidity Accounts The maximum maturity for any investment at the time of purchase shall be two years for the Liquidity Accounts.

Reserve Cash (Intermediate) Account The maximum maturity for any investment at the time of purchase shall be ten years. The maximum average maturity of the portfolio shall be seven years.

Endowment Accounts The maximum maturity for any investment at the time of purchase shall be ten years. The maximum average maturity of the portfolio shall be seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.

Authority Operating, Bond and Debt Service Reserve Fund Accounts Maturity Restrictions: The maximum maturity for any investment at the time of purchase shall be ten years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

The schedule on the following page presents a listing of directly held bonds and short-term investments and related maturity schedule.

State of Delaware
Investment Maturity
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	Over 10
1) Fixed Income:					
A) U.S. Government					
U.S. Government Treasuries, Notes, Bonds	$ 252,098	$ 80,027	$148,768	$23,303	
U.S. Government Agency	499,051	286,868	201,551	10,632	
B) Mortgage Backed					
Government Pass-Through	21,386		10,331	5,028	$ 6,027
C) Corporate					
Corporate Bonds	213,318	131,799	77,043	2,963	1,513
Corporate Asset Backed	4,500				4,500
Private Placements	92,288	53,329	38,959		
D) Municipals	99,395	6,064	59,050	23,049	11,232
E) Pooled Investments	30,098	20,308	4,300	5,490	
F) Non-U.S. Fixed Income					
1) Developed Markets					
Government / Sovereign	824	824			
Corporate	32,642	17,341	15,301		
2) Short Term					
Commercial Paper	154,555	154,555			
Certificate of Deposit	36,025	27,067	8,958		
Treasury Bills	27,213	27,213			
Agencies	112,669	112,669			
Master Notes	3,297		3,297		
Total Invested Assets	**$1,579,359**	**$918,064**	**$567,558**	**$70,465**	**$23,272**
Less: Pooled Component Unit Investments	**(46,684)**				
Total State Investments	**$1,532,675**				

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State's Investment Pool follows the Cash Management Policy by investing only in securities authorized in the policy for reducing investment credit risk. The State's general investment policy for credit risk is to apply the prudent–person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

In addition, the Cash Management Policy Board guidelines limits investments in commercial paper, senior long-term debt, and corporate bonds to the following ratings issued by nationally recognized statistical rating organizations:

Investment	Standard & Poor's	Moody's
Commercial Paper	A-1	P-1
Senior Long-Term Debt	A	A
Corporate Bonds	AA	Aa
Mortgage Backed Securities *	AAA	

*Limitation of no more than 20% of total managed portfolio

Additionally, the State has multiple non-rated/pooled accounts which represent immaterial amounts when treated individually. The Cash Management Policy Board permits the types of investments which are held in these accounts.

The schedule below presents the credit risk characteristics of the State's investments as of June 30, 2005.

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State of Delaware
Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	Agency *	AAA	AA+	AA	A+ and A	A-1 and AA-	NRP **
1) Fixed Income:							
A) U.S. Government							
U.S. Government Treasuries, Notes, Bonds		$252,098					
U.S. Government Agency	$56,498	442,553					
B) Mortgage Backed							
Government Pass-Through	15,359	6,027					
C) Corporate							
Corporate Bonds		88,285		$100,247	$24,786		
Corporate Asset Backed		4,500					
Private Placements		3,017		79,257	10,014		
D) Municipals		89,365		6,685	2,368		$ 977
E) Other Pooled			$ 5,570	2,489	1,006	$ 785	20,248
F) Non-U.S. Fixed Income							
1) Developed Markets							
Government / Sovereign		824					
Corporate				32,642			
2) Short Term							
Commercial Paper						153,653	902
Certificate of Deposit			15,009	16,093		2,904	2,019
Treasury Bills		27,213					
Agencies		5,026				107,643	
Master Notes							3,297
TOTAL	**$71,857**	**$918,908**	**$20,579**	**$237,413**	**$38,174**	**$264,985**	**$27,443**

* The Agency column above represents securities issued by government -sponsored enterprises that are not rated, but have an implied but not explicit guarantee from the federal government.

** NRP = Non-Rated Pooled accounts

Derivatives

The State's cash management prohibits investment in derivatives.

Investments in Excess of 5 %

The Cash Management Policy provides the following percentage of account limitations, valued at market. Investments due to mature in one business day may be excluded from the computation of said limitations.

A. U.S. Government-no restrictions.

B. Government Agency-50% total; 20% in any one agency.

C. CDs, Time Deposits and Bankers Acceptances-50% total; 10% in any one issuer.

   1. Domestic-No additional restrictions.
   2. Non-Domestic-25%.
   3. Delaware Domiciled-Securities pledged as collateral have a market value equal to or greater than 102% of the ledger balance(s) in the account(s) each day and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

D. Corporate Debt-50% total; 25% in any one industry; 10% in any one issuer, 10% of any issuer's total outstanding securities.

   1. Domestic-No additional restrictions.
   2. Non-Domestic-25%; 10% in any one issuer.

E. Repurchase Agreements-50% total.

F. Reverse Repurchase Agreements-25% total.

G. Money Market Funds-25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

H. Canadian Treasuries-25% total; 10% in any one agency.

I. Canadian Agency Securities-25% total; 10% in any one agency.

J. Municipal Obligations-10% in any one issuer.

K. Guaranteed Investment Contracts-Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

L. Mortgage-backed securities-20% total.

At June 30, 2005, the State had no issuers with investments at fair value in excess of 5% of the investment portfolio.

Investment Commitments

The State has made no investment commitments as of June 30, 2005.

Foreign Investments/Forward Exchange Contracts

The State does not have a formal policy that limits foreign currency risk. The Non-U.S. Fixed Income securities are debt instruments that are issued by non-domestic organizations and denominated in U.S. dollars; therefore not subject to foreign currency risk.

Delaware Public Employees' Retirement System (DPERS or System)

Investment Policy

There are no State statutes limiting allowable investments for the System. The investment decisions are dictated by the prudent person rule and the internal investment policy established by the Pensions Board as outlined below:

a. maintain a minimum of 20% - 25% of total assets of the System in fixed income investments such as bonds and short-term investments (assets with maturity of less than one year);

b. conduct an ongoing review of prospective risk levels and rates of return available from all classes of assets eligible for investment;

c. employ a variety of investment managers with demonstrated skills in managing funds through different styles of management with expertise in particular kinds of assets such as stocks, bonds, real estate, mortgages, venture capital, money market instruments, currency, or combinations thereof; and

d. closely monitor the performance of all investment managers not only in relation to specific absolute objectives, but also in relation to other fund managers following similar investment objectives.

For the Fiscal Year ended June 30, 2005, the System has operated in all material respects in accordance with these policies.

Investments

The schedule on the following page is a listing of domestic fixed income and short-term investments and related maturity schedule. The totals presented are derived from the individual assets held by the System as of June 30, 2005.

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 4.9	5 - 9.9	10 - 19.9	20 - 30	More than 30
Financials	$ 99,135	$ 25,307	$ 28,541	$ 17,684	$ 8,037	$ 8,305	$ 11,261
Foreign Government	119,077	13,288	39,441	19,980	28,703	17,665	
Industrials	81,120		11,182	19,392	14,277	36,269	
Other Bonds/Bond Mutual Funds	88,120	1,216	25,615	6,446	7,866	26,571	20,406
Telephone	19,157		1,051	4,861	1,870	11,375	
Transportation	4,741			1,489	3,252		
Treasury Notes & Bonds	125,967	24,383	62,983	13,322	20,913	4,366	
U.S. Gov't Agencies	199,859	38,789	49,635	6,058	27,246	74,139	3,992
Utilities	13,366	835	4,657	6,183	451	1,240	
World Bank	12,429		12,429				
Certificates of Deposit	19,454	19,454					
Discount Commercial Paper	156,395	156,395					
Discount Commercial Notes	20,905	20,905					
Other Investments*	265,098						
Total:	$ 1,224,823	$ 300,572	$ 235,534	$ 95,415	$ 112,615	$ 179,930	$ 35,659

* Assets held in pooled investments -- specific investment maturities not available.

The State has delegated investment policy for the System to the Board and its Committees. The Investment Committee sets its own policy in conjunction with the Board to manage and review the System's exposure to fluctuating interest rates.

Credit Risk

The System's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices. As of June 30, 2005, the System's fixed income and short-term investments (as noted above) had the following risk characteristics:

Moody's Ratings or Comparable	Percent of Total Fund	Market Value (Expressed in Thousands)	Callable Amount	Callable Dates
AAA to A	12.0%	$ 710,022		
BBB to B	2.6%	151,596	$ 5,762	Through October 20, 2010
CCC to C	0.3%	19,803	1,027	Through April 15, 2009
Not Rated	1.3%	78,304	300	Through April 15, 2011
Other Investments*	4.5%	265,098		
Total:	20.7%	$ 1,224,823	$ 7,089	

*Assets held in pooled investments – specific investment ratings, callable details not available

Custodial Credit Risk

Of the System's $6,204,000 cash balance, $433,000 represents pooled deposits held by the State Treasurer's Office. The balance of $5,771,000 represents pooled deposits in short-term investments held by the custodian bank. Both of these accounts are uninsured and uncollateralized.

Investments in Excess of 5% of Net Assets Held in Trust for Pension Benefits

The following managers have investments at fair value in excess of 5% of the System's net assets held in trust for pension benefits as of June 30, 2005:

	Fair Value (Expressed in Thousands)
Mellon Capital Asset Allocation Fund	$ 1,324,978
Oaktree International Convertibles	405,627
T. Rowe Price Natural Resource Fund	398,192
Mellon Capital Global Asset Allocation Fund	369,384
Lehman Capital - Fixed	357,171
Loomis-Sayles & Company LP	309,612

Investment Commitments

The System has commitments to invest up to an additional $393 million in venture capital limited partnerships in varying amounts as of June 30, 2005, to be drawn down, as called upon, over a period of years. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments/Forward Exchange Contracts

Foreign investments include equity securities, bonds, and short-term investments. In conjunction with certain of these foreign investments, the System has entered into forward exchange contracts to sell or purchase certain foreign currencies at specified rates at stated dates. At June 30, 2005, the System did not hold any directly-held open forward exchange contracts.

The following is a listing of the System's foreign assets as of June 30, 2005, excluding foreign-issuer assets valued at $155.7 million which were U.S. dollar denominated. As a result, totals presented may differ from disclosures made in the Statement of Plan Net Assets, which reflects the primary asset class in which the fund manager invests.

Investment Types
(Expressed in Thousands)

Currency	Fair Value in U.S. Dollars	Fixed Income	Cash	Equities
Australian Dollar	$14,503	$9,551	$ 4	$ 4,948
Canadian Dollar	3,383	3,383		
Swiss Franc	36,484	13,980		22,504
Euro	266,551	179,578	4,468	82,505
British Pound	75,447	30,487	166	44,794
Hong Kong Dollar	4,399	113		4,286
Japanese Yen	65,374	33,000	12	32,362
Norwegian Krone	391	391		
Swedish Krona	4,980			4,980
Singapore Dollar	8,816	1,258		7,558
Other Investments*	229,210	53,053		176,157
Total:	$709,538	$324,794	$4,650	$380,094

* Assets held in pooled investments -- specific currency exposure not available.

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. Only a few selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. So-called "exotic" derivatives are not used. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

The table on the following page lists principal categories of derivatives and their uses during the year:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies; enhance return
Exchange traded futures contracts	Reduce transaction costs; hedge equity market risk; control fixed income; portfolio duration; enhance return
Exchange traded options contracts	Enhance return; reduce transaction costs
Asset backed securities	Enhance return

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the System typically have no greater risk than their physical

counterparts, and in many cases are offset by exposures elsewhere in the portfolio (for example, a short S&P 500 futures contract partially hedging a long position in S&P 500 securities). Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMOs), commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

COMPONENT UNITS

Diamond State Port Corporation

At June 30, 2005, the carrying value and bank balances of the Diamond State Port Corporation's cash deposits amounted to $17,087,220 and $17,251,891 respectively. Of the bank balances, $100,000 is insured by the FDIC and the remaining $17,151,891 is uninsured and uncollateralized.

Riverfront Development Corporation

At June 30, 2005, the Riverfront Development Corporation's cash deposits carrying value and bank balances amounted to $3,499,910 and $3,655,628 respectively. Cash deposits include $120,595 of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. Of the bank balances, $400,068 is insured by the FDIC and $3,250,988 is uninsured and uncollateralized. An additional $4,572 is deposited in the State Treasurer’s Investment Pool.

Delaware State University

At June 30, 2005, Delaware State University's deposits carrying value and bank balance was $7,943,354 and $6,940,153 respectively. An additional $11,029,018 of cash and cash equivalents related to unexpended State appropriations are included on the Statement of Net Assets. Of the bank balances, $774,686 was uninsured and uncollateralized. An additional $891,402 represents pooled deposits held by the State Treasurer’s Office.

Delaware Technical and Community College Educational Foundation

At December 31, 2004, the DTCC Foundation’s cash deposits amounted to $80,538. All bank balances were insured by the FDIC.

Delaware Charter Schools

At June 30, 2005, the Delaware Charter Schools deposits carrying value was $11,067,741. Deposits include $8,415,776 held in the State Investment Pool. Carrying value of the remainder of deposits was $2,651,965. Bank balances totaled $2,242,837, consisting of $737,699 insured by FDIC and $1,505,138 uninsured and uncollateralized.

Delaware State Housing Authority

Investment Policies

The Authority has an investment policy that encompasses all moneys related to the issuance of bonds, as well as, all funds otherwise held by the Authority. The Authority seeks first and foremost to ensure safety of principal, and secondly, to attain the highest possible return available given the risk constraints.

The Authority is allowed to invest in certain qualified investments as defined by amended Section 4013, Chapter 40, Title 31, of the Delaware Code and the Authority's formal investment policy. Subject to certain limitations, such as the credit ratings on bonds and the capitalization level of depositories, "qualified investments" include:

a. Obligations of or explicitly guaranteed by the U.S. or Delaware state governments.
b. Obligations of U.S. government-sponsored enterprises and U.S. government agencies and instrumentalities.
c. Obligations of depositories and other financial institutions.
d. Bankers' acceptances.
e. Commercial paper
f. Money market mutual funds
g. Corporate debt obligations
h. The State of Delaware investment pool with the State Treasurer's Office.
i. Other investment arrangements made pursuant to an investment agreement authorized by a resolution of the Authority.

Certain federal funds administered by the Authority are subject to additional limitations within the qualified investments listed above.

For the State of Delaware Investment Pool, fair value of the pool shares is the same as the carrying value of the pool shares. The State of Delaware Cash Management Policy Board provides oversight for this pool.

Investments

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchange prices for all investments, except for the State of Delaware Investment Pool. The State pool is valued based on the pool's share price. The following is a listing of investments and their maturities.

		Investment Maturities (in Years)				
Investment Type	Fair Value	Less than 1	1 to 5	5 to 10	10 to 20	20 to 30
U.S. Treasury Notes	$ 18,602,113	$ 9,258,174	$ 8,865,138	$ 126,000		$ 467,000
U.S. Treasury Bonds	196,311			143,000		19,000
U.S. Treasury Bills	1,111,440	1,129,000				
U.S. Treasury Strips	2,630,614	455,000	1,819,000	681,000		
U.S. Agencies	19,182,155	7,413,000	6,765,000			
Repurchase Agreements	240,697	240,697				
Corporate Notes	7,022,762	3,100,000	3,969,000			
Resolution Funding Corp. Coupon Strips	267,680			362,000		
Municipal Bonds	2,189,801		2,195,000	335,000		
Investment Agreements	95,629,431		65,402,391	4,449,554	$ 12,053,981	13,723,504
Money Market Savings Accounts	679,771	679,771				
Bank Money Market Accounts	2,773,159	2,773,159				
State of Delaware Investment Pool	27,234,067	27,234,067				
Total Investments	$ 177,760,001	$ 52,282,868	$ 89,015,529	$ 6,096,554	$ 12,053,981	$ 14,209,504

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy places limits on maturities for the various funds as follows:

a. Single Family & Multi-Family Program Funds: Investment contracts for bond program funds should have a maturity that matches the final bond maturity to minimize reinvestment risk. Individual investments of bond program funds should match anticipated cash requirements or provide sufficient liquidity to allow funds to be accessed to meet bond resolution requirements without incurring material principal losses.

b. Federal Program Funds: HUD funds held by the Authority should have a maximum maturity of one year. HUD-related funds held by the Authority (escrows, replacement reserves, residual receipts) shall have a maximum maturity of three years.

c. General Fund: The Operating Reserve Account, which is managed externally, should have a maximum maturity at the time of purchase of ten years. However, specific investments may be transferred into the account from time to time that may have a longer maturity. The Authority may further reduce the maximum maturity of the operating reserve investments from time to time.

d. Other Authority funds should be invested with a maturity that matches, or is prior to, the anticipated time at which the funds will be needed.

e. Authority investments (other than deposit accounts, money market fund shares, or deposits with the State Treasurer's Office) should have a fixed maturity date by which principal and accrued interest will be fully repaid. The Authority is not permitted to enter into investments that have an expected maturity date that can be extended depending upon market conditions.

Credit Risk

The Authority's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. The Authority's investment policy limits its investment choices as mentioned above under Investments. For the Authority's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. The Authority's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or Aa, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2005, the Authority's investments were rated as follows:

		Rating (S & P)			
Investment Type	Agency *	AAA	AA	A+	AA-
U.S. Agencies	$19,182,155				
Corporate Notes		$1,213,392	$1,742,500	$1,102,014	$2,964,856
Resolution Funding Corp. Coupon Strips		267,680			
Municipal Bonds		248,627			1,941,174
Total	$19,182,155	$1,729,699	$1,742,500	$1,102,014	$4,906,030

* The Agency column above represents securities issued by government -sponsored enterprises that are not rated, but have an implied but not explicit guarantee from the federal government.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the Authority's $177,760,001 investment balance, $95,629,431 represents deposits held by various Guaranteed Investment Contract (GIC) providers. These accounts are uninsured and uncollateralized. The funds are specifically identified for the Authority, but the custodial credit risk cannot be categorized for these funds.

Diamond State Port Corporation

At June 30, the Diamond State Port Corporation held no investments.

Riverfront Development Corporation

The Riverfront's restricted investments totaling $9,582,745 consist of $3,787,133 of short-term investments (rated A1 or better), $5,665,612 of Governmental bonds (rated AAA), and $130,000 Certificates of deposit (insured up to $100,000). These investments are investments that are uninsured, unregistered and held by the counterparty's trust department or agent in the RDC's name. The following issuers have investments at fair value in excess of 5% of RDC's investment portfolio:

Investments	Fair Value	% of Assets
American Express Credit Corp. Note	$ 500,000	5.2 %
General Electric Capital Corp. Note	1,000,000	10.4 %
AIG Funding Corp. Note	500,000	5.2 %
Household Finance Corp. Note	500,000	5.2 %
Toyota Motor Credit Corp. Note	500,000	5.2 %

Delaware State University

Investments of the University totaled $16,017,216 stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities.

Delaware Technical and Community College Educational Foundation

Investments of the DTCC Foundation totaled $5,169,339, stated at quoted market value. These investments consist of pooled investments where the University does not own specific securities. An additional $61,000 is invested in life insurance, recorded at the cash surrender value.

NOTE 3. RECEIVABLES

All trade, loan and tax account receivables are recorded net of an allowance for doubtful accounts. In the governmental funds, receivables that will not be available within 60 days of year-end are recorded as deferred revenue. In the government-wide statements, receivables not expected to be collected during the subsequent year are recorded as noncurrent.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available as of June 30, 2005. Uncollectability for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State of Delaware levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the Counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements.

Receivables as of year-end for the State's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

Receivables - Primary Government
Governmental Activities
(Expressed in Thousands)

	General	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 179,575		$ 17,144	$ 196,719
Interest	19		12	31
Accounts	659,167	$ 31,252	381	690,800
Loans and Notes	85,834	18,914		104,748
Intergovernmental	122	86,841	62	87,025
Total receivables	924,717	137,007	17,599	1,079,323
Allowance for doubtful accounts	(696,366)	(24,928)	(236)	(721,530)
Total receivable (net)	$ 228,351	$ 112,079	$ 17,363	$ 357,793
Amounts not scheduled for collection during the subsequent year	$ 126,904	$ 21,956	$ 10,162	$ 159,022

Business-type Activities
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 31,318			$ 31,318
Interest			$ 1,392	1,392
Accounts	6,238	$ 7,149	6,763	20,150
Loans and Notes			28,985	28,985
Intergovernmental	449		1,853	2,302
Total receivables	38,005	7,149	38,993	84,147
Allowance for doubtful accounts	(14,309)	(705)		(15,014)
Total receivable (net)	$ 23,696	$ 6,444	$ 38,993	$ 69,133
Amounts not scheduled for collection during the subsequent year	$	$	$ 29,577	$ 29,577

Receivables as of year-end for the State's component units, including the applicable allowances for uncollectible accounts, are shown below.

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC Educational Foundation	Delaware Charter Schools	Total Receivables
			(Expressed in Thousands)				
Receivables:							
Interest	$ 20,689						$ 20,689
Accounts	2,099	$ 2,959	$ 213	$ 3,189		$ 461	8,921
Loans and Notes	396,225		3,998		$ 2		400,225
Intergovernmental	155	281		3,565			4,001
Total receivables	419,168	3,240	4,211	6,754	2	461	433,836
Less: Allowance for doubtful accounts	(957)	(57)	(1,938)	(1,444)			(4,396)
Total receivables (net)	$ 418,211	$ 3,183	$ 2,273	$ 5,310	$ 2	$ 461	$ 429,440
Amounts not scheduled for collection during the subsequent year	$ 385,236	$	$ 2,060	$ 394	$	$	$ 387,690

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdowns are reported as deferred revenue.

The various components of deferred revenue and unearned revenue reported at year-end in the governmental funds are presented below.

Deferred Revenues
(Expressed in Thousands)

Unavailable	
Taxes Receivable	$ 69,628
Non-tax Receivables	159,238
Subtotal Unavailable	228,866
Unearned	
Advance Park Reservation Fees	874
Federal Grant Advance Drawdowns	12,095
Total Deferred Revenue	$ 241,835

NOTE 4. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due From/Due to Other Funds

Receivables reported as "Due From Other Funds" and the related payables reported as "Due To Other Funds" represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to

other levels of government are reported as Intergovernmental receivables or payables. The composition of Due From/Due To balances as of June 30, 2005 expressed in thousands is as follows.

Receivable Fund	Payable Fund	Amount
General Fund	Federal Fund	$ 30,801
	Delaware State Lottery	4,385
	Total	$ 35,186

The amounts due from the Federal Fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the Federal Fund is created by expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool. The negative balance is considered to be a borrowing from the General Fund. The amount due from the Delaware Lottery (reported as an internal balance on the Statement of Net Assets), represents profits required by law to be transferred to the General Fund.

Transfers In From /Out To Other Funds

Transfers in and transfers out from/to other funds in the Statement of Revenues, Expenditures and Changes in Fund Balance, the Statement of Revenues, Expenses and Changes in Fund Net Assets, Proprietary Funds and Payment from the Primary Government in the Statement of Activities-Component Units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Delaware State Lottery as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2005 is presented below.

(Expressed in Thousands)

	Transfers In	Transfers Out
Governmental Fund Types		
General Fund	$ 388,676	$ 104,204
Federal Fund		
Local School Fund	20,362	31,845
Capital Projects Fund		50,145
Proprietary Fund Types		
Lottery		300,922
DelDOT Fund	83,842	27,438
Primary Government (Entity-wide Only)		
Transfer of Capital Assets from DelDOT	21,674	
Total All Funds	$ 514,554	$ 514,554

NOTE 5. GENERAL OBLIGATION BONDS

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State of Delaware; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the General fund. Accordingly, the State of Delaware has generally issued 10 and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at a redemption price not to exceed 101% to 103% of par value.

On December 22, 2004, the State issued $224,177 in General Obligation Qualified Zone Academy Bonds (QZABs). The QZABs are debt instruments that provide a substantial federal tax credit to the lending financial institution. The lender receives no interest payment from the borrower but receives an interest tax credit. The lender benefits from the tax credit that provides a greater return than bond interest would provide, while the State benefits because the loan is essentially interest free. Proceeds were used for renovation of public schools. The bonds mature in 2020.

On February 1, 2005, the State issued $125,000,000 of general obligation bonds. These serial bonds mature between February 1, 2006 and February 1, 2025. The Series A Bonds totaling $32,425,000 were sold to retail investors and bear average annual interest rates of 3.75%. The Series B Bonds totaling $92,575,000 were sold competitively and bear average annual interest rates of 4.28%. Proceeds were used to provide funds for capital improvements to various State facilities.

On March 8, 2005, the State issued $45,335,000 of general obligation bonds. These bonds mature between March 1, 2016 and March 1, 2023. The proceeds of these bonds were used to advance refund $48,266,000 of general obligation bonds. Investments were purchased and placed in an irrevocable trust with an escrow agent. The investments and fixed earnings on the investments are sufficient to fully provide for all future debt service on the refunded bonds. The refunding resulted in an economic gain of $1.9 million and a debt service cash savings over the next 8 years of $2,372,104.

Bonds issued and outstanding totaled $1,026,947,000 at June 30, 2005. Of this amount, $332.6 million is supported by property taxes collected by the Local School

District Funds. During fiscal year 2005, the Local School District Funds transferred $31.8 million of property tax revenue to the General Fund to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $267.6 million of general obligation bonds at June 30, 2005. Interest rates and maturities of the outstanding General Obligation Bonds are detailed below.

General Obligation Bonds

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2005 (Expressed in Thousands)
195	GO Refunding 2005C	5%	2023	$ 45,335
194	GO 2005B	2.625% - 5.0%	2024	92,575
193	GO 2005A	2.25% - 4.25%	2025	32,425
192	QZAB 2004B	0%	2020	224
191	GO + Refunding 2004A	3.0% - 6.0%	2024	193,010
190	QZAB 2003D	0%	2019	908
189	GO Refunding 2003C	4.0% - 6.0%	2024	103,000
188	GO Refunding 2003B	4.0% - 5.0%	2012	31,485
187	GO 2003A	4.0% - 5.0%	2023	82,700
186	QZAB 2002B	0%	2017	760
185	GO + Refunding 2002A	4.0% - 5.25%	2023	218,855
184	QZAB 2001B	0%	2012	649
183	GO + Refunding 2001A	4.0% - 4.75%	2022	70,260
182	GO 2000 A	5.0% - 5.5%	2010	37,500
181	GO 1999 A	4.0% - 4.625%	2019	35,750
179	GO + Refunding 1998A	4.5% - 4.75%	2018	50,490
178	GO 1997 B	5.0%	2007	9,750
177	GO 1997 A	5.0%	2007	12,000
176	GO 1996 A	4.5% - 5.125%	2006	7,500
170	GO 1992 B	4.7% - 6.1%	2013	1,771
				$ 1,026,947

The table presented on the following page sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2005.

Total General Obligation Bonds

(Expressed in Thousands)

Fiscal Year Ending June 30	Principal	Interest	Total
2006	$ 113,781	$ 46,373	$ 160,154
2007	108,829	40,821	149,650
2008	99,715	35,765	135,480
2009	94,020	30,923	124,943
2010	88,440	26,377	114,817
2011-2015	320,316	82,073	402,389
2016-2020	136,039	30,075	166,114
2021-2025	65,807	6,719	72,526
Totals	$ 1,026,947	$ 299,126	$ 1,326,073

Changes in general obligation bonded debt during the year ended June 30, 2005, are summarized in Note 10.

In the current and prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and therefore has been removed as a liability from the Government-wide financial statements. As of June 30, 2005, a total of $216.3 million of defeased bonds were outstanding.

NOTE 6. REVENUE BONDS

REVENUE BONDS

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

PRIMARY GOVERNMENT

DelDOT Fund

Delaware Transportation Authority

The Delaware Transportation Authority (the Authority) is subject to oversight by the Department of Transportation and is included in the DelDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system

for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

On October 20, 2004, the Authority issued $167,550,000 of Transportation System Senior Revenue Bonds, 2004 Series, of which $67,425,000 was to advance refund Transportation System Senior Revenue Bonds. The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of $3,305,552 and a reduction of $4,462,624 in future debt service payments.

The Authority has previously defeased various other bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. Government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore removed as a liability of the Authority. As of June 30, 2005, a total of $151,760,000 of defeased bonds is outstanding.

The Delaware Transportation Authority had a total of $95,219,525 in authorized but unissued bonds at June 30, 2005. Bonds outstanding at June 30, 2005 amounted to $861,710,000 and are detailed on the following page.

Delaware Transportation Authority Revenue Bonds

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding June 30, 2005 (Expressed in Thousands)
Transportation System Senior Revenue Bonds - Series			
1997	5.0% - 6.0%	2017	$ 60,090
1998	4.15% - 5.5%	2016	52,385
2000	5.5% - 6.0%	2020	20,770
2001	4.5% - 5.5%	2021	53,815
2002	4.0% - 5.0%	2008	39,905
2002 B	4.0% - 5.25%	2022	153,100
2003	3.0% - 5.0%	2023	256,575
2004	3.0% - 5.0%	2024	167,550
Transportation System Junior Revenue Bonds - Series			
1993	5.0%	2005	10,260
2002	4.375% - 5.0%	2009	47,260
	Totals		861,710
	Less: Current portion		58,445
			$ 803,265

Future debt service requirements for the Authority's outstanding bonds are shown in the table below.

Delaware Transportation Authority Revenue Bonds

(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 58,445	$ 40,573	$ 99,018
2007	60,370	37,591	97,961
2008	63,980	34,478	98,458
2009	67,320	31,179	98,499
2010	64,595	27,882	92,477
2011-2015	239,995	100,579	340,574
2016-2020	192,540	47,319	239,859
2021-2025	114,465	9,926	124,391
Totals	$ 861,710	$ 329,527	$ 1,191,237

COMPONENT UNITS

Debt issued by the following component units is not secured by the full faith, credit and taxing power of the State.

Delaware State Housing Authority

The Authority is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of the Authority.

The Delaware State Housing Authority has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for-profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of the Authority and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 2.90% to 7.375% with maturities through October 1, 2038.

The Authority's Single Family Mortgage Revenue Bonds 2004 Series A consisted of a total of $60,000,000 being issued in traunches. From March 4, 2004 to June 10, 2004, the Authority issued a total of $15,172,199. From September 2004 to May 2005, the Authority issued a total of $44,825,721. Proceeds of the sales were used for making new qualified residential mortgage loans.

On May 18, 2005, the Authority issued $60,000,000 of Single Family Mortgage Revenue Bonds, 2005 Series A. Proceeds of the sales are being used to make new qualified residential mortgage loans.

Outstanding bonds at June 30, 2005 amounted to $341,744,154. Future debt service requirements for the Authority's bonds are shown on the following page.

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 7,752	$ 14,501	$ 22,253
2007	8,470	14,133	22,603
2008	8,980	13,727	22,707
2009	9,420	13,287	22,707
2010	9,940	12,818	22,758
2011-2015	45,435	56,251	101,686
2016-2020	41,320	46,420	87,740
2021-2025	46,264	36,814	83,078
2026-2030	51,355	27,070	78,425
2031-2035	32,331	20,194	52,525
2036-2038	80,477	3,997	84,474
Total	$ 341,744	$ 259,212	$ 600,956

Riverfront Development Corporation

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury Bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2005 was 5.125%. The bonds mature December 1, 2017. Debt service requirements are as follows:

Riverfront Development Corporation Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 240	$ 249	$ 489
2007	245	237	482
2008	275	224	499
2009	300	209	509
2010	320	193	513
2011-2015	2,140	669	2,809
2016 - 2018	1,460	100	1,560
Total	$ 4,980	$ 1,881	$ 6,861

Delaware State University

Revenue bonds payable of the University at June 30, 2005 are shown below.

Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)

Revenue Refunding Bonds	$ 11,306
Student Housing Foundation Bonds	54,339
Total	$ 65,645

In May 1999, the University issued Revenue Refunding Bonds of $15,865,000 (par value) to advance refund the 1992 and 1996 series bonds with a total par value of $14,625,000. The Bond Trust Indenture requires the University to maintain a Debt Service Reserve Fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. The indenture provides for the deposit of a surety bond in the Debt Reserve Fund, replacing the investment requirement. This bond was obtained from MBIA Insurance Corporation in the amount of $1,580,000. The bond ratings were not changed as a result of this substitution. In addition, the University has pledged for payment of debt all net operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

Interest rates range from 3.90% to 5.25% on the outstanding Revenue Refunding Bonds. Debt service requirements for the Delaware State University Bonds are shown on below.

Delaware State University Revenue Refunding Bonds

Year Ending June 30	(Expressed in Thousands) Principal	Interest	Total
2006	$ 940	$ 476	$ 1,416
2007	690	446	1,136
2008	720	417	1,137
2009	745	387	1,132
2010	775	356	1,131
2011 - 2015	4,365	1,259	5,624
2016 - 2018	3,130	211	3,341
Total	$ 11,365	$ 3,552	$ 14,917
Less: Unamortized Bond Discount	(59)		
	$ 11,306		

The Delaware State University Student Housing Foundation (the Foundation), a component unit of Delaware State University, is a non-profit corporation organized for the purpose of owning and operating student housing facilities primarily for students and faculty of Delaware State University. The Foundation has a fiscal year-end of July 31, 2004. The Foundation has issued student housing revenue bonds secured by deed and payable solely from the revenues of the Foundation. Bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation refinanced the Series 2000A and 2002A Bonds (the “Prior Bonds”) with a loan payable in an aggregate amount of $18,420,000 funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (Delaware State University Student Housing Foundation Project). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding the Prior Bonds, to fund a debt service reserve fund for the

Series 2004A Bonds, to fund an operating reserve fund, and to pay a portion of the costs of issuance of the Series 2004A Bonds.

The refunding of the Prior Bonds was at par. A loss of $776,745 was recorded as a result of the refinancing and relates to the write-off of issue costs related to the refunded Prior Bonds and write-off of unamortized issue discount.

The Delaware State University Student Housing Foundation financed development and construction with a loan payable in an aggregate amount of $36,300,000 funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B and 2004C (Delaware State University Student Housing Foundation Project). The proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III or the Project, to defease in advance of their maturities, the Series 2000B and 2002B Bonds (the "Taxable Refunded Bonds"), to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The Prior Bonds were called for optional redemption on February 2, 2004. The Taxable Refunded Bonds are not callable prior to their respective maturity dates on October 1, 2004 and October 1, 2006. Funds were deposited with the Trustee to accomplish the defeasance of the Taxable Refunded Bonds.

The liability of the Delaware State University Student Housing Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004 Bonds began on July 1, 2004. Total accrued interest on all bonds as of July 31, 2004 and 2003, is $173,806 and $62,471, respectively.

At July 31, 2004, bonds payable of the Foundation consisted of $54,245,000 of tax-exempt term bonds with maturities through July 2036 and $755,000 of taxable term bonds with maturities through July 2007. Interest rates on the tax-exempt bonds are variable determined weekly, as defined in the supplemental . Interest rates on the taxable bonds are fixed coupon rates of 5.50% - 7.50%. Taxable Series 2004C with variable interest rates determined weekly up to 4 percent, as defined in the Trust Indenture, are secured by deed and assignment of rents. Maturities of long term debt at July 31, 2004 are presented on the following page.

Delaware State University
Student Housing Foundation
Revenue Bonds

Year Ending July 31	(Expressed in Thousands) Tax-exempt	Taxable	Total
2005	$ 250	$ 160	$ 410
2006	325	495	820
2007	650	100	750
2008	840		840
2009	935		935
2010 - 2014	5,690		5,690
2015 - 2019	7,085		7,085
2020 - 2024	8,890		8,890
2025 - 2029	11,215		11,215
2030 - 2034	14,140		14,140
2035 - 2039	4,225		4,225
Subtotal	$ 54,245	$ 755	55,000
Less: bond discount (net of accumulated amortization)			(661)
Total			$ 54,339

NOTE 7. LOANS AND NOTES PAYABLE

PRIMARY GOVERNMENT

DelDOT Fund

Delaware Transportation Authority

On May 6, 2005, the Authority issued a $40,000,000 note to PNC Bank, Delaware. Proceeds of the note are for the purpose of providing interim financing for the DelDOT Fund's capital program in anticipation of issuance of long-term bonds, which will provide permanent financing for the capital program. The note bears interest at 2.92% for the period from May 6, 2005 to (but excluding) August 3, 2005, and is adjusted each business day thereafter to a variable rate based on LIBOR [(LIBOR + 25 basis points) (0.65 + 68 basis points)]. Interest is calculated on the basis of a 360-day year comprised of twelve 30-day months. The note, together with all interest accrued, is payable on October 3, 2005. The balance outstanding on the note at June 30, 2005 was $40,000,000.

COMPONENT UNITS

Delaware State Housing authority (DSHA)

Notes payable of the DSHA represent obligations to the Federal National Mortgage Association (FNMA) and the State.

The Authority entered into a $6,300,000 loan agreement with FNMA in May 2003 to provide construction financing for three Housing Development Fund (HDF)/Tax Credit developments through FNMA's American Community Fund (ACF). The note

was paid in full during fiscal 2005 as the construction project loans converted to permanent HDF loans.

The Authority entered into a second ACF loan agreement with FNMA in September 2004 to provide construction financing for five additional HDF/tax Credit developments. The total principal balance at June 30, 2005 was $2,236,233. The note is payable as the construction projects convert to permanent HDF mortgages through September 2007 with interest accruing at an adjustable rate obtained by adding one hundred forty (140) basis points (1.40%) to the three month LIBOR, adjusted quarterly, based on such rate as published in The Wall Street Journal on the last business day of the month immediately preceding each quarter.

The State issued general obligation bonds on behalf of the DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled the DSHA to receive the savings from the FAF issues in advance. Debt service requirements for these notes are shown below.

Delaware State Housing Authority
Financing Adjustment Factor (FAF) Notes
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 46	$ 23	$ 69
2007	46	21	67
2008	115	19	134
2009	72	14	86
2010	72	10	82
2011-2015	250	239	489
Total	$ 601	$ 326	$ 927

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2005 are shown below.

Diamond State Port Corporation
Loan and Notes Payable
(Expressed in Thousands)

City of Wilmington:	
Port Debt Service Notes	$ 21,453
Transportation Trust Fund Loan	29,652
Total	$ 51,105

Transportation Trust Fund Loan

On November 30, 2001, the DSPC entered into a loan agreement with the State of Delaware's Department of Transportation (DOT). The DSPC borrowed $25,500,000

on February 2, 2002 and $2,000,000 on May 2, 2002. The funds were used to repay the balances in full of the Delaware River and Bay Authority Note and the Wilmington Trust Company Note and, at a discount, the City of Wilmington Deferred Payment Note. In addition, the loan provided $8,648,136 to establish a fund to be invested. This fund was restricted to pay portions of debt service as they become due. In 2004 the remaining funds were used for debt service. No funds restricted for debt service remain.

In July 2005 the loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2005, and January 1, 2006, and to restructure the repayment of the outstanding principal balance effective July 1, 2006 over the next twenty years. The rate of interest of 4.6% remained unchanged. Beginning July 1, 2006, payments of principal and interest are due semi-annually over a twenty-year period. Interest capitalized as principal during fiscal year 2005 as part of the restructuring amounted to $1,318,319.

In July 2004, a similar restructuring occurred whereby the loan was restructured to allow for the deferral of debt service principal and interest payments due January 1, 2004, July 1, 2004 and January 1, 2005, and to restructure the repayment of the outstanding principal balance effective July 1, 2005 over the next 20 years. Interest capitalized as principal during fiscal year 2004 as part of the restructuring amounted to $1,259,707.

Interest expense charged to operations in 2005 and 2004 was $1,318,319 and $1,259,707, respectively.

The schedule of future maturities below includes $681,987 interest to be capitalized as principal in fiscal year 2006 as part of the loan restructuring of 2005.

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ -	$ -	$ -
2007	952	1,385	2,337
2008	996	1,340	2,336
2009	1,042	1,294	2,336
2010	1,091	1,245	2,336
2011-2015	6,263	5,417	11,680
2016-2020	7,862	3,818	11,680
2021-2025	9,870	1,810	11,680
2026	2,258	78	2,336
Total	$ 30,334	$ 16,387	$ 46,721

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington, Delaware (the City), the DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39,900,000 and Port Debt Service Notes with original face amounts of $51,080,622. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate the DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 5, 2004, the City issued $12,945,000 of general obligation bonds with an average interest rate of 3.73% to advance refund $11,655,000 of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $161,921 due January 1, 2005. The Port-related portions of the new bonds issued and the old bonds redeemed were $3,992,497 and $3,594,635, respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $397,862, it reduces the Corporation's debt service payments by $251,815 over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2005 was $397,401.

On October 20, 2001, the City issued $22,165,000 of general obligation bonds with an average interest rate of 3.7% to advance refund $21,335,000 of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. The Port related portions of the new bonds issued and old bonds redeemed were $7,206,705 and $6,945,086 respectively, passed through to the Corporation. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $261,619 for the year ended June 30, 2002, it reduces the Corporation's debt service payments by $281,293 over the next eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven years of the life of the debt. The deferred loss balance as of June 30, 2005 was $70,436.

Total deferred loss balance as of June 30, 2005 was $467,837.

Principal and interest payments made on the notes during 2005 were $3,300,589 and $902,916, respectfully. Interest expense in 2005 was $872,590.

The future principal and interest payments on Port Debt Service Notes are shown on the following page.

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 2,985	$ 1,002	$ 3,987
2007	3,156	827	3,983
2008	3,302	676	3,978
2009	2,291	541	2,832
2010	2,405	424	2,829
2011-2015	4,572	1,180	5,752
2016-2020	2,253	388	2,641
2021-2025	957	61	1,018
Subtotal	21,921	5,099	27,020
Deferred Loss on Refunding	(468)		(468)
Total	$ 21,453	$ 5,099	$ 26,552

Riverfront Development Corporation (RDC)

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $7,112,000 at June 30, 2005. Interest rates for the mortgages vary between 5.25% and 10.0% and mature between January 2005 and October 2009. Estimated future annual debt service requirements are shown below.

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2006	$ 205	$ 411	$ 616
2007	217	399	616
2008	230	386	616
2009	944	373	1,317
2010	5,516	104	5,620
Total	$ 7,112	$ 1,673	$ 8,785

Demand Note Payable and Advance Payable

RDC has available a line of credit in the amount $250,000. When used, this line bears interest at 1.00% over prime (7.5% at June 30, 2005) and is due on demand. There was no outstanding balance on this line as of June 30, 2005.

NOTE 8. LEASE COMMITMENTS

PRIMARY GOVERNMENT

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $112.1 million, of which $89.0 million relates to property leases and $23.1 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Appropriations of approximately $24.6 million were made by the General Assembly to meet the rental payments in fiscal 2005, of which $17.3 million was for office space and $7.3 million was for equipment consisting mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $1.8 million for computers and data processing equipment for the Department of Technology and Information and $3.9 million for fleet vehicles and data processing equipment with the Department of Administrative Services. Significant annual real estate rentals include $4.8 million for leases for Health and Social Services facilities, $2.5 million for the Department of Labor and $1.9 million for office space of the Department of Services for Children, Youth and Their Families.

Future minimum lease commitments for operating leases as of June 30, 2005 are shown in the following table.

State of Delaware Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2006	$ 24,435
2007	18,884
2008	16,143
2009	11,656
2010	8,747
2011-2015	23,309
2016-2020	4,812
2021-2025	1,956
2026-2030	1,779
2031-2035	416
	$ 112,137

NOTE 9. OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the Government-wide Financial Statements and in Proprietary Funds. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2005. Employees earn from

1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $119.9 million has been accrued in long-term obligations for the Governmental Activities and $12.3 million in the Business-type Activities for the compensated absences liability. The current portion of the long-term obligation for compensated absences is $9.5 million in the Governmental Activities and $4.2 million in the business-type Activities. Approximately $104.2 million (86.9%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $6.7 million (5.6%) and $9.0 million (6.8%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $35.0 million relating to the accrual of the long-term obligation for escheat (abandoned property). $7.0 million was recorded as a current obligation.

The State has incurred obligations relating to scholarship and physician loan repayment programs resulting in an additional long-term obligation of $3.1 million. $0.6 million was recorded as a current obligation.

NOTE 10. CHANGES IN LONG-TERM OBLIGATIONS

The table below provides a summary of changes in long-term obligations of the Primary Government for the year ended June 30, 2005.

Changes in Long-Term Obligations
Primary Government
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	$ 1,012.5	$ 170.6	$ (156.2)	$ 1,026.9	$ 113.8
Bond issue premium, net of accumulated amortization	42.1	9.8	(3.0)	48.9	3.0
Notes payable		4.8		4.8	1.2
Physician & scholarship programs	2.8	0.9	(0.6)	3.1	0.6
Claims and judgments (notes 13 and 17)	74.9	83.0	(71.5)	86.4	22.9
Compensated absences	117.2	12.0	(9.3)	119.9	9.5
Net pension obligation (note 14)	88.6	24.0	(17.1)	95.5	
Escheat payable	35.0	7.0	(7.0)	35.0	7.0
Governmental activities long-term liabilities	$ 1,373.1	$ 312.1	$ (264.7)	$ 1,420.5	$ 158.0
Business-type Activities					
Revenue bonds	$ 815.5	$ 167.5	$ (121.3)	$ 861.7	$ 58.4
Bond issue premium, net of accumulated amortization	29.4	9.2	(8.5)	30.1	
Compensated absences	11.1	1.2		12.3	4.2
Claims and judgments (notes 13 and 17)	14.8	3.7	(3.7)	14.8	2.3
Business type Activities long-term liabilities	$ 870.8	$ 181.6	$ (133.5)	$ 918.9	$ 64.9

Changes in long-term obligations for the Component Units are summarized below.

CHANGES IN LONG-TERM OBLIGATIONS
Component Units
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Notes payable	$ 5.3	$ 3.9	$ (6.4)	$ 2.8	$ 2.3
Revenue bonds	307.2	108.5	(74.0)	341.7	7.8
Compensated absences	0.8	0.5	(0.4)	0.9	
Total long term obligations	$ 313.3	$ 112.9	$ (80.8)	$ 345.4	$ 10.1
Diamond State Port Corporation					
Notes and loans payable	$ 53.0	1.3	$ (3.2)	$ 51.1	$ 3.0
Other non-current	0.1		(0.1)	0.0	
Total long term obligations	$ 53.1	$ 1.3	$ (3.3)	$ 51.1	$ 3.0
Riverfront Development Corporation					
Bonds payable	$ 5.2		$ (0.2)	$ 5.0	$ 0.2
Long term debt	8.2	$	(1.1)	7.1	0.2
Total long term obligations	$ 13.4	$ 0.0	$ (1.3)	$ 12.1	$ 0.4
Delaware State University					
Other long term obligations	$ 2.2	$ 0.6	$ (0.4)	$ 2.4	$ 0.5
Notes payable	0.6		(0.2)	0.4	0.1
Revenue bonds	30.1	37.3	(1.8)	65.6	1.4
Total long term obligations	$ 32.9	$ 37.9	$ (2.4)	$ 68.4	$ 2.0
Delaware Charter Schools					
Long term debt	$ 26.5	$ 4.4	$ (3.0)	$ 27.9	$ 1.8
Total long term obligations	$ 26.5	$ 4.4	$ (3.0)	$ 27.9	$ 1.8

NOTE 11. NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The State of Delaware, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2005 for these entities amounted to $1.5 billion and $432.2 million, respectively.

NOTE 12. CAPITAL ASSETS

PRIMARY GOVERNMENT

Capital asset activities for the fiscal year ended June 30, 2005 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 327,811	$ 38,834	$ (5,255)	$ 361,390
Easements	66,822	25,782		92,604
Construction-in-progress	203,263	218,920	(278,798)	143,385
Total capital assets, not being depreciated	597,896	283,536	(284,053)	597,379
Capital assets, being depreciated				
Vehicles	65,006	16,883	(5,124)	76,765
Buildings	1,771,070	286,365	(18,601)	2,038,834
Equipment	75,664	4,418	(3,437)	76,645
Land Improvements	58,138	19,674		77,812
Total capital assets being depreciated	1,969,878	327,340	(27,162)	2,270,056
Less accuumulated depreciation for:				
Vehicles	(45,731)	(10,619)	3,409	(52,941)
Buildings	(629,389)	(46,564)	2,800	(673,153)
Equipment	(52,042)	(5,704)	2,854	(54,892)
Land Improvements	(18,042)	(6,812)		(24,854)
Total accumulated depreciation	(745,204)	(69,699)	9,063	(805,840)
Total capital assets, being depreciated, net	1,224,674	257,641	(18,099)	1,464,216
Governmental activities capital assets, net	$ 1,822,570	$ 541,177	$ (302,152)	$ 2,061,595

Capital Assets
(Expressed in thousands)

Business-type Activites Lottery	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Vehicles and equipment	$ 1,395			$ 1,395
Total capital assets being depreciated	1,395			1,395
Less accuumulated depreciation for:				
Vehicles and equipment	(1,065)	$ (131)		(1,196)
Total accumlated depreciation	(1,065)	(131)		(1,196)
Total capital assets, being depreciated, net	330	(131)		199
Business-type activity capital assets, net	$ 330	$ (131)	$	$ 199

Capital Assets

(Expressed in Thousands)

Business-type Activity DelDOT Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 113,673	$ 79,339	$ (23,648)	$ 169,364
Infrastructure	3,148,481	15,210		3,163,691
Total capital assets, not being depreciated	3,262,154	94,549	(23,648)	3,333,055
Capital assets, being depreciated				
Buildings	53,415	9,664	(1,866)	61,213
Vehicles and equipment	149,831	12,550	(9,666)	152,715
Total capital assets being depreciated	203,246	22,214	(11,532)	213,928
Less accumulated depreciation for:				
Buildings	(18,863)	(1,599)		(20,462)
Vehicles and equipment	(69,860)	(18,055)	9,049	(78,866)
Total accumulated depreciation	(88,723)	(19,654)	9,049	(99,328)
Total capital assets, being depreciated, net	114,523	2,560	(2,483)	114,600
Business-type activity capital assets, net	$ 3,376,677	$ 97,109	$ (26,131)	$ 3,447,655

Depreciation expense was charged to the following primary government functions as follows:

Depreciation Expense

(Expressed in Thousands)

Governmental Activities:	
General Government	$ 15,302
Health and Children's Services	10,832
Judicial and Public safety	12,067
Natural Resources and Environmental Control	3,294
Labor	73
Education	28,131
Total Depreciation Expense - Governmental Activities	$ 69,699
Business-type Activities:	
Transportation	$ 19,654
Lottery	131
Total Depreciation Expense- Business-type Activities	$ 19,785

NOTE 13. RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional

malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its General Fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The management of the State estimates that the amount of actual or potential claims against the State as of June 30, 2005, for workers' compensation, automobile accident and health-care claim liabilities is $126.5 million. The claim liabilities relating to health-care totaling $43.6 million have been recorded as accrued liabilities in the Governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $82.9 million has been recorded in Governmental activities as claims and judgments. The current portion of these claims totals $19.4 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2005 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2004 and 2005 were as follows:

Changes in Claim Liabilities
(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2004	$ 113,458	$ 473,449	$ (466,664)	$ 120,243
2005	$ 120,243	$ 524,968	$ (518,712)	$ 126,499

DelDOT Fund

The Delaware Transit Corporation (DTC) maintains coverage auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $3.5 million of claim liabilities as claims and judgments. Of this amount, $2.3 million has been recorded as current.

NOTE 14. PENSIONS

PRIMARY GOVERNMENT

State of Delaware Pension Plans

The State Board of Pension Trustees administers the defined benefit plans (the Plans) of the Delaware Public Employees' Retirement System (DPERS) as described below.

- State Employees' Pension Plan;
- Special Pension Plan;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County and Municipal Police/Firemen's Pension Plans (FICA and Non-FICA);
- County and Municipal Other Employees' Pension Plan;
- Volunteer Firemen's Pension Plan;
- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending plan provisions.

The individual Plans comprising the DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the Plans, with the exception of the Closed Police Pension Plan, are pooled and invested in the common DPERS Master Trust Fund (Master Trust). Each of the Plans has equity in the Master Trust based on funds contributed and earnings allocated. Individual investments in the Master Trust are not specifically identified to the various Plans.

Additionally, the following non-DPERS funds, described below, have been established under the custody of the State Board of Pension Trustees.

- County and Municipal Police/Firemen's COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Post-Retirement Health Insurance Premium Fund, and
- Delaware Local Government Retirement Investment Pool (DELRIP).

The DELRIP is presented separately as Investment Trust Funds in the Fiduciary Funds Statement of Net Assets and Statement of Changes in Net Assets. The remaining non-DPERS funds are included in the Pension Trust Fund

Non-DPERS Fund Descriptions and Contributions

County and Municipal Police and Firemen's COLA Fund

During 1990, the State passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County and Municipal Police and Firemen's Pension Plans. This mechanism allows the State to appropriate funds relating to a cost of living adjustment (COLA) to a separate County and Municipal Police and Firemen's COLA Fund managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The State and local governments transfer the proceeds of the tax on a per officer basis. The portion of the tax payable relating to the State Police is re-directed into the COLA Fund. When a participating employer grants a post-retirement increase, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution.

Post-Retirement Increase Fund (PRI)

The State of Delaware passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan and the Judiciary Plans (Closed and Revised) beginning with Fiscal Year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI Fund managed by the Board. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI Fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed.

As of June 30, 2005, recently granted post-retirement increases have outstanding liabilities totaling $147.1 million, which will be transferred to the appropriate plans over the next five years as follows:

Fiscal Year	(Expressed in Thousands)
2006	$ 38,748
2007	$ 33,717
2008	$ 35,037
2009	$ 26,490
2010	$ 13,132

The Board adopted actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal Year 2005 was 2.4% of covered payroll. Funding for Fiscal Year 2006 has been increased to 2.6% of covered payroll.

Investment Trust Fund

In June 1996, the State passed legislation that established the Delaware Local Government Retirement Investment Pool (DELRIP) in the custody of the Board of Pension Trustees to allow local governments the option to pool their pension assets with the Delaware Public Employees' Retirement System. The DELRIP is an external investment pool that allows local governments to maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is totally voluntary. There were four participating entities in the DELRIP as of June 30, 2005, which comprises the pool in its entirety.

The DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The System has not provided or obtained any legal binding guarantees during the year to support the value of shares. The fair value of the shares in the pool is determined in the same manner as the value of the Master Trust shares. Since this pool is a portion of the total System, the same accounting and investment policies apply.

Post-Retirement Health Insurance Premium Fund

The Post-Retirement Health Insurance Premium Fund, which was established in June of 2000, is a cost-sharing multiple-employer defined benefit post-employment healthcare plan that covers retired employees of the State Employees' Pension Plan. The State provides health insurance to eligible retirees and their dependents. The State Legislature under 29 Del Code, Chapter 52 has the authority to establish and amend benefit provisions, including contributions requirements. Retired plan members and beneficiaries currently receiving benefits are required to contribute specified amounts monthly toward the cost of health insurance premiums. For the Fiscal Year ended June 30, 2005, plan members contributed $2.4 million, or 2.9% of total premiums through their required contributions. The State of Delaware General Fund was required to contribute the balance of the premium cost ($82.2 million, or 97.1% for Fiscal Year 2005). Pre-funding levels are set annually by the Legislature as part of the budget process. Funding began in Fiscal Year 2002 in the amount of 0.7% of covered payroll and continued in Fiscal Year 2003 at the rate of 0.4%. Funding was suspended for Fiscal Years 2004 and 2005. A $10 million lump sum contribution to the Fund was appropriated during the State's Fiscal Year 2006 General Fund budget process.

In addition to the premium payments described above, the State provides post-retirement health care benefits, in accordance with State statutes, to all employees who retire from the State after meeting the eligibility requirements. The State reimburses substantially all validated claims for medical and hospitalization costs incurred by pre-Medicare retirees and their dependents. The State also pays a fixed amount of $301.56 per month for a Medicare supplement for each retiree eligible for Medicare. Expenditures for post-retirement health care benefits are recognized as

retirees report claims. During the year, General Government expenditures of $84,818,000 were recognized in the General Fund for post-retirement health care.

Plan Membership, Benefit and Contribution Provisions

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board of Pension Trustees.

State Employees' Pension Plan

Plan Description and Eligibility: The State Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 5 years of credited service, eligible survivor receives 50% (or 75% with 3% reduction of benefit) of the benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 3% of earnings in excess of $6,000.

Death Benefit: $7,000 per member.

Special Pension Plan

Plan Description and Eligibility: The Special Pension Plan is a cost-sharing multiple employer defined benefit plan that covers benefits granted to certain retirees or groups of retirees through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Death Benefit: $7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility: The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service at any age.

Retirement: Age 55 with 10 years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty - *Total Disability* - 75% of compensation plus 10% for each dependent not to exceed 25% for all dependents. *Partial Disability* - calculated the same as Service Benefits subject to minimum 50% of final average compensation.

Non-Duty –same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of compensation.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 7% of compensation.

Death Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one plan can be used to satisfy the liabilities of the other plan.

Service Benefits:

Closed - 3% of final average compensation multiplied by years of credited service, subject to maximum and minimum limitations.

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.

For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits

Survivor Benefits:

Closed - If employee is receiving a pension, then eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, then eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, then eligible survivor receives 1/2 of pension (2/3 with 3% reduction); if employee is active, eligible survivor receives 2/3 of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member:
  - Closed - $500 per year for the first 25 years of service.
  - Revised - 3% of earnings that exceed $6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Death Benefit: Not applicable.

County and Municipal Police/Firefighters' Pension Plans (FICA & Non-FICA)

Plan Description and Eligibility: County and Municipal Police/Firefighters' Pension Plans, both FICA and Non-FICA, are cost-sharing multiple employer defined benefit plans that cover police officers and firemen employed by a county or municipality of the State which have become part of the Plans.

Service Benefits: 1/40th of final average monthly compensation multiplied by years of credited service, subject to limitations. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service.

Retirement: Age 62 with 10 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents; *Partial Disability* - calculated the same as Service benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - FICA covered - 5% of compensation.
  Non-FICA covered - 7% of compensation.

Death Benefit: Not applicable.

County & Municipal Other Employees' Pension Plan

Plan Description and Eligibility: County & Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of highest five years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service, age 60 with 15 years of credited service, or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 5 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 3% of earnings in excess of $6,000, plus 2% of earnings that exceed the Social Security Wage Base.

Death Benefit: Not applicable.

Volunteer Firemen's Pension Plan

Plan Description and Eligibility: The Volunteer Firemen's Pension Plan is a cost-sharing multiple employer defined benefit plan which covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State of Delaware.

Service Benefits: $5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Volunteer Member - $60 per member per calendar year.

Death Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility: The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan that covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: 5 years of credited service.

Retirement: Age 65 with 5 years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension or is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 2% of compensation.

Death Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility: The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary.

Vesting / Retirement: 20 years of credited service or age 55.

Disability Benefits: Duty - 75% of salary. Non-Duty – Same as Service Benefit.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension, eligible survivor receives 50% of pension.

Contributions:

- Employer - The Closed State Police Plan is funded on a pay-as-you-go basis.
- Member - 5% of salary with 20 years or less of credited service; 2% of salary with over 20 years credited service.

Death Benefit: $7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite #1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Plan for the fiscal years ended June 30, 2005, 2004, and 2003 are presented on the following page.

Net Pension Obligation (NPO)

	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2003
	(Expressed in Thousands)		
Annual Required Contribution	$ 24,358	$ 27,747	$ 27,654
Interest on Net Pension Obligation	7,089	6,849	6,099
Adjustment to Annual Required Contribution	(7,479)	(7,075)	(6,265)
Annual Pension Cost	23,968	27,521	27,488
Less Contributions Made	(17,071)	(19,480)	(18,667)
Increase in Net Pension Obligation	6,897	8,041	8,821
Net Pension Obligation, Beginning of Year	88,618	80,577	71,756
Net Pension Obligation, End of Year	$ 95,515	$ 88,618	$ 80,577

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Plan changed in January 2001 to include an employer-matching contribution. The State will match the first $10 per pay contributed by employees who have participated in the plan for six months. Maximum annual State match per employee is $260. The State contribution totaled $2,081,400 for the year ended June 30, 2005.

Delaware Transportation Authority

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan may be found in Required Supplementary Information on page 110.

Required supplementary information concerning funding policies and annual pension costs is included on page 110. Annual pension cost is equal to the respective plans required and actual contributions.

Three-Year Trend Information

(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
DTC Pension Plan	06/30/2005	$ 763,558	$ 612,886	124.58%	-
	06/30/2004	820,350	749,796	109.41%	-
	06/30/2003	545,328	693,100	78.68%	-
Contributory Pension Plan	12/31/2004	$ 916,604	$ 601,299	152.44%	-
	12/31/2003	548,215	913,947	59.98%	-
	12/31/2002	346,939	563,584	61.56%	-

Component Units

Delaware State Housing Authority (DSHA)

All full time or regular part-time State employees of the DSHA are covered under the DPERS plan, including post-retirement health care. For the year ended June 30, 2005, the Authority was required to contribute 13.25% of covered payroll to the DPERS plan. The Authority's contribution to the DPERS for the year ended June 30, 2005 was $246,165, equal to the required contribution for the year. Full-time non-state employees of the Public Housing Program and Section 8 Program are covered by the "Housing-Renewal and Local Agency Retirement Plan," a defined contribution plan funded by contributions from both the Authority and the covered employees. Non-State employees of the DSHA are required to contribute 3.5% of their base salary. The DSHA's contribution rate of annual salaries is 13.25% for the period ended June 30, 2005. Total contributions made for the year amounted to $365,861.

The Authority provides post-retirement health care benefits, in accordance with Authority General Order Number 325, to all non-state employees who retire from the Authority after meeting the eligibility requirements. Currently, five retirees meet those requirements. Health care benefits paid during fiscal 2005 totaled $35,386. The set aside balance, which is held in the State of Delaware investment pool, totaled $204,724 as of June 30, 2005. The Authority decided the current set aside balance was sufficient for fiscal year 2005 and did not set aside additional funds.

Diamond State Port Corporation and Delaware State University

Generally, employees of these discretely presented component units are covered under DPERS.

NOTE 15. AFFILIATED ORGANIZATIONS

Delaware State Lottery

Multi-State Lottery Association

The Multi-State Lottery Association (MUSL) was established in 1987. Its members include the Delaware State Lottery, an enterprise fund, and twenty-four other state lotteries. MUSL is governed by a Board of Directors, of which each member lottery is represented. The Board's responsibilities are to initiate, promulgate, and administer a multi-state lottery game for the mutual benefit of the member lotteries.

The total amount held as a deposit by the MUSL as of June 30, 2005, was $1,700,747. This amount, reported by the Lottery as restricted assets and as liabilities payable from restricted assets, represents funds to be paid to the State of Delaware, the Powerball game ends, if MUSL is not required to use a portion of the Lottery's reserves it holds.

Complete separate financial statements for MUSL may be obtained at the Multi-State Lottery Association, 1701 48th Street, Suite 210, West Des Moines, IA 50266-6723.

DelDOT Fund

Delaware Transportation Authority

During fiscal year 1998, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium. The consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing and operations of an electronic toll collection customer service center (CSC). The CSC collects tolls and violation fees from motorists in each member jurisdiction and remits to each jurisdiction their share of tolls collected based upon actual road usage.

The CSC will also lease fiber optic transmission lines to the public, which will generate rental income to the CSC. The rental income and violation fees are expected to exceed the costs associated with operating the CSC. In the event that the CSC generates costs in excess of revenues during its ten-year operating term, each member jurisdiction will be obligated to finance their share of this operating deficit under the terms of a True-Up Agreement, which each member jurisdiction has signed.

At June 30, 2005 and June 30, 2004, a True-Up study revealed a probable liability relating to the True-Up Agreement. While the exact amount of this liability, due in March 2008, is not known, a reasonable estimate based on information currently available is $12,000,000. This liability has been discounted to its present value based on the average investment rate of the Trust Fund at fiscal year end. The

discounted amount of $11,325,229 was recorded in claims and judgments at June 30, 2005. To accumulate funds for future payment of this contingency, the Delaware Transportation Authority is earmarking funds within its operating budget.

On March 25, 2003, the Trust Fund withdrew from the regional consortium that was governing the E-Zpass operation jointly with three agencies from other states. As of November 30, 2003, the Trust Fund has been operating its E-ZPass system independent of the regional consortium. According to the withdrawal agreement, the Trust Fund has received approximately $7.6 million for the completion of the fiber optic system. This amount was initially recorded as deferred revenue and vendor retainage payable and will be recorded as income as expenses are incurred. For the year ended June 30, 2005, expenses related to E-ZPass of $2,665,572 were included in miscellaneous revenue and transportation operating expense in the statement of revenues, expenses and change in fund net assets. The Trust Fund has agreed to pay its share of the True-Up due in March 2008.

Audited statements for the CSC may be obtained from Adesta Transportation Inc., 200 East Park Drive, Suite 600, Mt. Laurel, New Jersey 08054.

NOTE 16. COMMITMENTS

The State has entered into various contractual commitments that contracts for services and for construction of various highway and capital projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the Governmental funds totaling $275.6 million are shown on the balance sheet as Encumbrances. Commitments of the Proprietary fund activities include $240.9 million for the DelDOT fund and $84.3 million for the Lottery.

NOTE 17. CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be in the range of $32.6 million – $35.9 million. The State recognized $3.5 million in Governmental Activities and $0.5 million in the DelDOT fund as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2005. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2005 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $9.9 million at June 30, 2005) in the event that the annuity issuers default on their obligations.

NOTE 18. SUBSEQUENT EVENT

Primary Government

On September 15, 2005, the State issued $132 million of general obligation bonds maturing between September 1, 2006 and September 1, 2025. The bonds bear interest between 3.5% and 5.0 %. The proceeds of the bonds were used to provide funds for capital improvements to various State facilities.

Diamond State Port Corporation

Effective July 1, 2005 the Diamond State Port loan was restructured. Unpaid interest through January 1, 2006, in the amount of $1,348,641 will be capitalized into the loan balance. The funds were loaned at an interest rate of 4.6%. The loan is to be repaid in 40 semi-annual payments of $1,168,031, commencing July 1, 2006 with the final payment to be made January 1, 2026.

NOTE 19. PRIOR PERIOD ADJUSTMENT

Component Units

Delaware State Housing Authority

Beginning net assets of the Authority as of July 1, 2004 were restated for prior period adjustments. The adjustments principally relate to the HOME Program loan modification forgiving portion of accrued interest. Net assets of the Authority as of June 30, 2004 have been restated from $229,528,000 to $228,934,000.

Diamond State Port Corporation

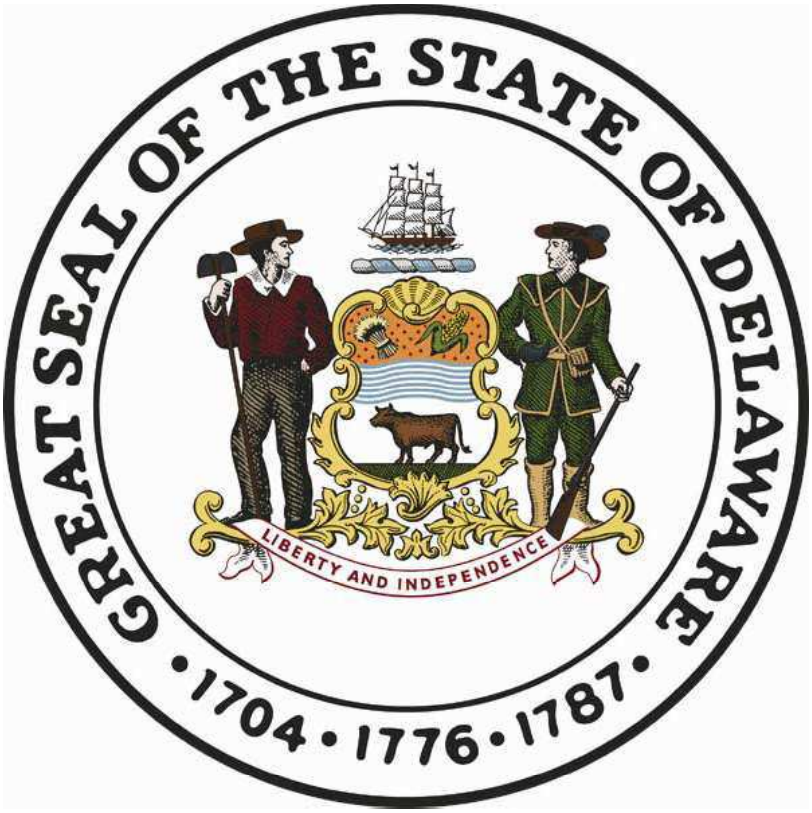
During fiscal year 2005, the Corporation began accruing holiday pay for ILA Union members which is paid annually each November, thus changing from the cash basis of accounting for the holiday pay to the accrual basis of accounting. As a result, the net assets as of July 1, 2004 have been restated from $104,359,000 to $104,236,000.

Delaware State University

Beginning net assets of the Delaware State University as of July 1, 2004 have been restated from $135,369,000 to $130,187,000 to reflect the effects of an accounting error related to the depreciation of library books.

Delaware Charter Schools

Beginning net assets of the Delaware Charter Schools as of July 1, 2004 were restated by $14,000, relating to the inclusion of a component unit. Net assets of the Delaware Charter Schools as of June 30, 2004 were restated from $12,917,000 to $12,931,000.



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State of Delaware
Comprehensive Annual Financial Report

Required Supplementary Information

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1(b), the State's budget system uses only a General Fund and a Special Fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories -- the General Fund or the Special Fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly.

The budgetary General Fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary Special Funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The Budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the Special Fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the Special Fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the Special Fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206.

Statutory/Budgetary Presentation

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2004, and does not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the “final budget” column, therefore updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2005, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following two pages represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the Budgetary Fund balance designations. Of the $701.2 million Budgetary General Fund Balance at June 30, 2005, $161.1 million is reserved for the Budget Reserve Account and $327.8 million is designated as continuing and encumbered appropriations. The $212.3 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statutes.

Budgetary Comparison Schedule-General Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Personal income taxes	$ 823.9	$ 887.9	$ 881.3	$ (6.6)
Business Taxes	972.3	1,007.1	1,009.0	1.9
Other Taxes	181.0	201.3	200.0	(1.3)
License, Permits, Fines and Fees	202.4	187.4	175.7	(11.7)
Interest Earnings	12.0	9.0	9.1	0.1
Lottery Sales	231.4	233.6	234.0	0.4
Other Non-Tax Revenue	367.4	355.9	368.7	12.8
Total Revenue	2,790.4	2,882.2	2,877.8	(4.4)
Expenditures				
Legislature	12.7	15.4	11.6	3.8
Executive	110.4	199.0	123.8	75.2
Department of Technology & Information	32.0	35.8	31.8	4.0
Other Elective Offices	63.6	89.4	84.8	4.6
Department of State	15.5	29.3	17.1	12.2
Department of Finance	18.0	67.3	41.7	25.6
Department of Administrative Services	44.2	122.4	74.9	47.5
Department of Agriculture	6.7	8.7	7.1	1.6
Department of Elections	3.4	5.2	4.7	0.5
Advisory Council for Exceptional Citizens	0.1	0.1	0.1	0.0
Department of Health & Social Services	662.0	745.1	707.4	37.7
Department of Services to Child/Youth	97.5	108.4	104.2	4.2
Judicial	68.9	77.5	75.2	2.3
Legal	31.3	32.3	32.2	0.1
Department of Corrections	194.6	210.0	201.7	8.3
Department of Safety & Homeland Security	91.1	101.8	99.8	2.0
Fire Prevention Commission	4.0	4.4	4.3	0.1
Delaware National Guard	3.7	4.1	3.6	0.5
Natural Resources and Environmental Control	36.4	59.9	45.8	14.1
Labor	6.6	6.7	6.6	0.1
Higher Education	210.7	242.1	228.3	13.8
Department of Education	887.0	1,000.7	915.6	85.1
Total Expenditures	2,600.4	3,165.6	2,822.3	343.3
Excess (deficiency) of revenue over expenditures	190.0	(283.4)	55.5	338.9
Budgetary fund balance, beginning of year	645.7	645.7	645.7	0.0
Budgetary fund balance, end of year	$ 835.7	$ 362.3	$ 701.2	$ 338.9
Budgetary Fund Balance				
Designated:				
Budget Reserve Account			$ 161.1	
Continuing and encumbered appropriations			327.8	
Undesignated			212.3	
Total			$ 701.2	

In prior years, abandoned property was classified as business tax. For the current year, $268 million in budget and $265 million in actual revenues are shown in other non-tax revenue.

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

Budgetary Comparison Schedule - Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Personal Income Taxes			$ 1.4	$ 1.4
Business Taxes	$ 26.5	$ 26.5	17.3	(9.2)
Other Taxes	4.0	4.0	14.6	10.6
License, Permits, Fines and Fees	63.9	63.9	92.2	28.3
Rentals and Sales	15.4	15.4	12.3	(3.1)
Interest Earnings	4.3	4.3	6.5	2.2
Grants	3.6	3.6	38.8	35.2
Other Non-Tax Revenue	554.3	554.3	369.2	(185.1)
Total Revenues	672.0	672.0	552.3	(119.7)
Expenditures				
Executive	129.1	117.7	67.4	50.3
Department of Technology & Information	26.1	31.1	16.4	14.7
Other Elective Offices	23.1	26.4	24.8	1.6
Department of State	16.0	21.1	14.8	6.3
Department of Finance	47.3	59.3	52.3	7.0
Department of Administrative Services	22.3	27.0	22.1	4.9
Department of Agriculture	4.5	4.8	3.8	1.0
Department of Elections	0.0	0.3	0.2	0.1
Department of Health & Social Services	74.9	92.8	60.2	32.6
Department of Services to Child/Youth/Families	24.2	31.3	18.7	12.6
Judicial	8.3	10.3	8.2	2.1
Legal	5.5	6.4	4.3	2.1
Department of Correction	3.7	5.4	2.2	3.2
Department of Safety & Homeland Security	7.9	9.0	7.1	1.9
Fire Prevention Commission	2.3	2.6	2.0	0.6
Natural Resources and Environmental Control	50.0	61.6	38.6	23.0
Transportation	277.4	177.4	205.3	(27.9)
Labor	16.3	17.7	14.8	2.9
Education	4.5	14.8	9.7	5.1
Total Expenditures	743.4	717.0	572.9	144.1
Excess (Deficiency) of Revenues Over Expenditures	(71.4)	(45.0)	(20.6)	24.4
Budgetary Fund Balance, Beginning of Year	354.3	354.3	354.3	0.0
Budgetary Fund Balance, End of Year	$ 282.9	$ 309.3	$ 333.7	$ 24.4

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

Statutory/Budgetary Reconciliations

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Budget vs. GAAP Revenue Reconciliation
For the Fiscal Year Ended June 30, 2005
(Expressed in Millions)

Budget Basis General and Special Fund Revenues for fiscal year 2005		$ 3,430.1
Non Appropriated Revenue by Category:		
Other Revenue	$ 207.3	
License, Fees, Permits, and Fines	35.1	
Personal, Business and Other Taxes	46.1	
Federal Government	10.1	
Rentals and Sales	9.3	
Interest and Other Investment Income	7.9	
Component Units	(32.6)	
DelDOT Fund Revenues-Enterprise Activities	(203.0)	
Appropriated Special Fund Revenues from Lottery-Reclassed to Transfers In	(67.7)	
Lottery Sales	(234.0)	
Local School District Debt Service Payments-Reclassed to Transfers In	(31.8)	
Other Accruals and Adjustments	(41.4)	
Total General Fund Revenues for the fiscal year ended June 30, 2005		3,135.4
Federal Fund Revenue		892.7
Local School District Funds Revenue		393.7
Capital Projects Fund Revenue		0.0
Total GAAP Basis Governmental Funds Revenue for the fiscal year ended June 30, 2005		$ 4,421.8

Budget vs. GAAP Expenditure Reconciliation
For the Fiscal Year Ended June 30, 2005
(Expressed in Millions)

Total Budget Basis General and Special Fund Expenditures for fiscal year 2005		$ 3,395.2
Non Appropriated Expenditures by Function:		
General Government	$ 857.4	
Health & Children's Services	21.4	
Judicial & Public Safety	10.7	
Natural Resources and Environmental Control	50.1	
Transportation	8.2	
Labor	53.3	
Education	8.9	
Tax Refunds	(217.8)	
Component Units	(1.0)	
Lottery Adjustment	(0.8)	
Transportation	(204.2)	
Education-Delaware State University	(35.7)	
Charter Schools	(33.8)	
Health Insurance	(504.2)	
Other Accruals and Adjustments	(135.8)	
Total General Fund Expenditures for the fiscal year ended June 30, 2005		3,271.9
Federal Revenue Funds Expenditures		886.6
Local School District Funds Expenditures		387.2
Capital Projects Funds Expenditures		174.1
Total GAAP Basis Governmental Funds Expenditures for the fiscal year ended June 30, 2005		$ 4,719.8

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,464 centerline miles and approximately 1,371 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0-9, 0-4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6-9. A 5 rating is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 75 percent of its highways and bridge system at a good or better condition level. No more than 10 percent of bridges and 15 percent of roads should be in substandard condition. The Department of Transportation will perform condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year and bridge condition assessments are conducted, for the most part every two years.

State of Delaware
Department of Transportation
Supplementary Information for Government That Use the
Modified Approach for Infrastructure Assets

Structural Rating Numbers and Percentages for Bridges

Calendar Year Ended December 31

	BCR Condition Rating	2004 Number	2004 Percent	2003 Number	2003 Percent	2002 Number	2002 Percent
Good	6-9	1,029	75.1	1,012	74.5	1,011	72.9
Fair	5	256	18.6	259	19.0	273	19.7
Poor	1-4	86	6.3	89	6.5	102	7.4
Totals		1,371	100.0	1,360	100.0	1,386	100.0

Deck Rating Numbers and Percentages for Bridges

Calendar Year Ended December 31

	OPC Condition Rating	2004 Square Meters	2004 Percent	2003 Square Meters	2003 Percent	2002 Square Meters	2002 Percent
Good	6-9	6,731,463	94.0	6,932,464	97.0	6,522,812	75.4
Fair	5	399,554	5.6	172,061	2.4	1,650,368	19.2
Poor	1-4	31,983	0.4	40,677	.6	480,228	5.4
Totals		7,163,000	100.0	7,145,202	100.0	8,653,408	100.0

Center-Line Mile Numbers and Percentages for Road Pavement

Calendar Year Ended December 31

	OPC Condition Rating	2004 Center-Line Mile	2004 Percent	2003 Center-Line Mile	2003 Percent	2002 Center-Line Mile	2002 Percent
Good	3.0-5.0	3,296	73.8	3,459	77.5	3,196	76.6
Fair	2.5-3.0	775	17.4	641	14.4	568	13.6
Poor	Below 2.5	393	8.8	364	8.1	411	9.8
Totals		4,464	100.0	4,464	100.0	4,175	100.0

Comparison of Estimated-to-Actual Maintenance/Preservation

(Expressed In Thousands)

	Fiscal Year 2005	2004	2003	2002	2001
Estimated	$ 138,517	$122,662	$ 129,180	$ 97,341	$ 51,275
Actual	$ 311,397	$133,765	$ 146,352	$126,540	$132,454

Required Supplementary Information – Pensions

The following tables present additional information related to funding status and progress, annual pension costs and actuarial methods and assumptions. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

Delaware Public Employees' Retirement System (DPERS)

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost.

Delaware Public Employees' Retirement System
Schedule of Funding Status and Progress

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees' *	6/30/05	$ 5,660,057	$ 5,572,719	$ (87,338)	101.6%	$ 1,471,931	(5.9%)
	6/30/04	5,387,560	5,229,927	(157,633)	103.0%	1,399,279	(11.3%)
	6/30/03	5,125,442	4,794,944	(330,498)	106.9%	1,355,800	(24.4%)
Special	6/30/05	$ 855	$ 791	$ (64)	108.1%	N/A	N/A
	6/30/04	933	785	(148)	118.9%	N/A	N/A
	6/30/03	1,009	768	(241)	131.4%	N/A	N/A
Closed State Police +	6/30/05	$ 749	$ 283,902	$ 283,153	0.3%	$ 2,579	10,979.2%
	6/30/04	2,979	285,044	282,065	1.0%	2,608	10,815.4%
	6/30/03	2,322	318,250	315,928	0.7%	2,869	11,011.8%
New State Police *	6/30/05	$ 150,209	$ 149,657	$ (552)	100.4%	$ 39,645	(1.4%)
	6/30/04	134,507	128,932	(5,575)	104.3%	36,718	(15.2%)
	6/30/03	120,457	106,272	(14,185)	113.3%	31,778	(44.6%)
Judiciary*	6/30/05	$ 35,112	$ 44,079	$ 8,967	79.7%	$ 8,475	105.8%
	6/30/04	32,841	38,864	6,023	84.5%	7,672	78.5%
	6/30/03	30,961	32,319	1,358	95.8%	7,173	18.9%
Diamond State Port Corporation	6/30/05	$ 8,948	$ 9,732	$ 784	91.9%	$ 9,248	8.5%
	6/30/04	8,140	9,049	909	89.9%	8,950	10.2%
	6/30/03	7,328	7,056	(272)	103.9%	8,636	(3.1%)
County and Municipal Police and Firefighters'	6/30/05	$ 59,711	$ 61,335	$ 1,624	97.4%	$ 33,389	4.9%
	6/30/04	48,893	45,204	(3,689)	108.2%	27,930	(13.2%)
	6/30/03	41,228	36,698	(4,530)	112.3%	24,128	(18.8%)
County and Municipal Other Employees'	6/30/05	$ 7,048	$ 6,722	$ (326)	104.8%	$ 9,737	(3.3%)
	6/30/04	4,275	3,340	(935)	128.0%	7,474	(12.5%)
	6/30/03	3,602	3,332	(270)	108.1%	6,209	(4.3%)
						Active ++ Members	Cost per Active Member ++
Volunteer Firemen's	6/30/05	$ 10,665	$ 22,913	$ 12,248	46.5%	5,106	$ 2,399
	6/30/04	10,121	21,950	11,829	46.1%	5,055	2,340
	6/30/03	9,644	15,619	5,975	61.7%	4,933	1,211

* Excludes liability and amortization payments due to ad hoc benefit adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.

\+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.

++ Not expressed in thousands.

Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2005.

Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Thousands)

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	$ 70,638	N/A	$ 24,358	$ 3,785	$ 1,391
Actuarial Valuation Date	6/30/05	6/30/05	6/30/05	6/30/05	6/30/05
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	21.2 years	N/A	31 years	14.8 years	15.8 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases*	4.3% to 10.1%	N/A	4.8% to 5.3%	4.8% to 16.7%	4.3% to 13.1%
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Based on CPI	Ad Hoc	Ad Hoc

Plan	Diamond State Port Corporation	County & Municipal Police & Firefighters'	County & Municipal Other Employees	Volunteer Firemen's
Annual Pension Cost	$ 352	$ 5,627	$ 2,271	$ 1,403
Actuarial Valuation Date	6/30/05	6/30/05	6/30/05	6/30/05
Actuarial Cost Method	Entry Age Normal	Entry Age Normal**	Entry Age Normal**	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	17 years	10 years	10 years	22 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases*	4.8%	4.3% to 15.7%	4.3% to 10.1%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

* Projected Salary Increases include an inflation component of 3.75% for all Plans.

** Actuarial cost method changed to Entry Age Normal from Frozen Initial Liability effective June 30, 2002.

DelDOT - Delaware Transit Corporation – Pension Data

The most recent information available for Delaware Transit Corporation's annual pension cost and related information for each plan is as follows (note - the current year information is not available for each plan):

Funding Status and Progress

(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial `Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2004	$ 6,450,349	$ 6,874,823	$ (424,474)	93.83%	$ 7,350,742	(5.77%)
	07/01/2003	5,187,005	5,536,310	(349,305)	93.69%	8,120,967	(4.30%)
	07/01/2002	4,355,464	4,727,035	(371,571)	92.14%	7,690,602	(4.83%)
Contributory Pension Plan	01/01/2005	$ 20,266,978	20,670,312	(403,334)	98.05%	$ 14,580,133	(2.77%)
	01/01/2004	17,654,095	18,866,345	(1,212,250)	93.57%	14,478,473	(8.37%)
	01/01/2003	14,914,835	18,110,449	(3,195,614)	82.35%	16,185,321	(19.74%)

Annual Pension Cost, Actuarial Methods and Assumptions

(Expressed in Dollars)

Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:		
Employer	Actuarially Determined	5.00%
Participants	N/A	5.00%
Annual Pension Cost	$ 612,886	$ 601,299
Contributions Made	$ 763,558	$ 916,604
Actuarial Valuation Date	7/1/2004	01/01/2004
Actuarial Cost Method	Frozen Initial Liability	N/A
Remaining Amortization Period	21	17
Asset Valuation Method	Market	Market
Actuarial Assumptions:		
Investment rate of return	7.50%	7.00%
Projected Salary Increases	4.50%	4.00%

N/A = Not Applicable

State of Delaware
Comprehensive Annual Financial Report

Supplementary Information
Combining Statements

STATE OF DELAWARE
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2005
(Expressed in Thousands)

	State Employees' Pension Plan	Special Pensions Plan	New State Police Plan	Judiciary Pension Plan	Volunteer Firemen's Pension Plan
Assets					
Cash	$ 2,009	$ 15	$ 419	$ 32	$ 35
Receivables:					
Employer contributions	3,565		186	75	
Member contributions	1,748		102	11	
Total receivables	5,313		288	86	
Investments at fair value:					
Domestic fixed income	1,026,616	148	27,129	6,351	1,922
Domestic equities	1,572,719	227	41,560	9,728	2,944
Pooled equity and fixed income	1,604,592	231	42,403	9,926	3,003
Alternative investments	582,513	84	15,394	3,603	1,090
Short term and money markets	213,108	29	5,562	1,306	377
Foreign equities	602,627	87	15,925	3,728	1,128
Total investments	5,602,175	806	147,973	34,642	10,464
Total assets	$ 5,609,497	$ 821	$ 148,680	$ 34,760	$ 10,499
Liabilities					
Transfer of assets outside the system					
Benefits payable	$ 682		$ 16		$ 12
Accrued administrative expenses	306		7		
Total liabilites	988		23		12
Assets held in trust for pension benefits	$ 5,608,509	$ 821	$ 148,657	$ 34,760	$ 10,487

Diamond State Port Corporation Fund	County and Municipal Police and Firefighters' Plan	County and Municipal Police and Firefighters' Cola Fund	County and Municipal Other Plans	DPERS Post Retirement Increase Fund	SEPP Post Retirement Health Care Premium Fund	Closed State Police Plan	Totals
$ 32	$ 724	$ 1,930	$ 89	$ 269		$ 638	$ 6,192
26	172		39	1,576			5,639
13	86		23			2	1,985
39	258		62	1,576		2	7,624
1,612	10,669	1,240	1,254	423	$ 2,304		1,079,668
2,470	16,343	1,899	1,921	648	3,531		1,653,990
2,520	16,675	1,937	1,960	661	3,603		1,687,511
915	6,053	703	711	240	1,308		612,614
240	2,139	257	231	88	477		223,814
947	6,262	727	736	248	1,353		633,768
8,704	58,141	6,763	6,813	2,308	12,576		5,891,365
$ 8,775	$ 59,123	$ 8,693	$ 6,964	$ 4,153	$ 12,576	$ 640	$ 5,905,181
							$ -
	$ 47		$ 3			$ 14	774
$ 5	7		2			3	330
5	54		5			17	1,104
$ 8,770	**$** 59,069	**$** 8,693	**$** 6,959	**$** 4,153	**$** 12,576	**$** 623	**$** 5,904,077

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
DELAWARE PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

	State Employees' Pension Plan	Special Pensions Plan	New State Police Plan	Judiciary Pension Plan	Volunteer Firemen's Pension Plan
Additions					
Contributions:					
Employer contributions	$ 70,638		$ 3,785	$ 1,391	$ 810
Transfer of assets from Pension Retirement Increase Fund	33,839		81	294	
Transfer of assets from outside the system					
Member contributions	37,857		2,636	275	213
Other			36		
Total contributions:	142,334		6,538	1,960	1,023
Investments:					
Investment income	80,315	$ 11	2,123	497	150
Net increase (decrease) in fair value	437,425	69	11,146	2,678	772
Total investment income:	517,740	80	13,269	3,175	922
Less investment manager/advisor/custody fees	(17,587)	(2)	(465)	(109)	(33)
Less investment administrative expenses	(305)		(8)	(2)	(1)
Net investment income:	499,848	78	12,796	3,064	888
Total additions	642,182	78	19,334	5,024	1,911
Deductions:					
Transfer of Assets from Pension Retirement Increase Fund					
Transfer of assets outside the system					
Pension payments	271,281	122	1,254	2,209	1,172
Refunds of contributions to members	2,408		99		43
Group life payments	4,454	14			
Administrative expenses	4,554				
Allocation of administrative expenses	(344)	3	61	9	20
Total deductions	282,353	139	1,414	2,218	1,235
Change in net assets increase/(decrease)	359,829	(61)	17,920	2,806	676
Net assets held in trust for pension benefits					
Balance - beginning of year	5,248,680	882	130,737	31,954	9,811
Balance - end of year	$ 5,608,509	$ 821	$ 148,657	$ 34,760	$ 10,487

Diamond State Port Corporation Fund	County and Municipal Police and Firefighters' Plan	County and Municipal Police and Firefighters' Cola Fund	County and Municipal Other Plans	DPERS Post Retirement Increase Fund	SEPP Post Retirement Health Care Premium Fund	Closed State Police Plan	Totals
$ 352	$ 5,627		$ 2,271	$ 35,824		$ 17,020	$ 137,718
							34,214
		$ 2,546					2,546
173	2,003		215			49	43,421
						1	37
525	7,630	2,546	2,486	35,824		17,070	217,936
127	835	96	97	33	$ 180	79	84,543
662	4,110	625	362	140	967		458,956
789	4,945	721	459	173	1,147	79	543,499
(28)	(183)	(21)	(21)	(7)	(39)		(18,495)
(1)	(3)				(1)		(321)
760	4,759	700	438	166	1,107	79	524,683
1,285	12,389	3,246	2,924	35,990	1,107	17,149	742,619
				34,214			34,214
		2,224					2,224
212	524		84			19,234	296,092
21	235		13				2,819
						133	4,601
99	76		30			46	4,554
332	835	2,224	127	34,214		19,413	344,504
953	11,554	1,022	2,797	1,776	1,107	(2,264)	398,115
7,817	47,515	7,671	4,162	2,377	11,469	2,887	5,505,962
$ 8,770	$ 59,069	$ 8,693	$ 6,959	$ 4,153	$ 12,576	$ 623	$ 5,904,077

STATE OF DELAWARE
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005
(Expressed in Thousands)

Child Support Collection:	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash and cash equivalents	$ 883	$ 261,055	$ 261,249	$ 689
Investments	286	3,664	2,683	1,267
Receivables, net	652	821	1,171	302
Total assets	$ 1,821	$ 265,540	$ 265,103	$ 2,258
Liabilities				
Accounts payable	$ 1,821	$ 265,540	$ 265,103	$ 2,258
Total liabilities	$ 1,821	$ 265,540	$ 265,103	$ 2,258

Court Fines and Restitution:	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash and cash equivalents	$ 11,248	$ 17,253	$ 14,530	$ 13,971
Investments	1,008	5,759	5,743	1,024
Receivables, net	17,689	27,418	20,709	24,398
Total assets	$ 29,945	$ 50,430	$ 40,982	$ 39,393
Liabilities				
Accounts payable	$ 29,945	$ 50,430	$ 40,982	$ 39,393
Total liabilities	$ 29,945	$ 50,430	$ 40,982	$ 39,393

All Other Agency Funds	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash and cash equivalents	$ 9,488	$ 29,873	$ 30,067	$ 9,294
Investments	7,218	16,278	15,970	7,526
Receivables, net	1,668	3	1,667	4
Total assets	$ 18,374	$ 46,154	$ 47,704	$ 16,824
Liabilities				
Accounts payable	$ 18,374	$ 46,154	$ 47,704	$ 16,824
Total liabilities	$ 18,374	$ 46,154	$ 47,704	$ 16,824

Totals - All Agency Funds	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Assets				
Cash and cash equivalents	$ 21,619	$ 308,181	$ 305,846	$ 23,954
Investments	8,512	25,701	24,396	9,817
Receivables, net	20,009	28,242	23,547	24,704
Total assets	$ 50,140	$ 362,124	$ 353,789	$ 58,475
Liabilities				
Accounts payable	$ 50,140	$ 362,124	$ 353,789	$ 58,475
Total liabilities	$ 50,140	$ 362,124	$ 353,789	$ 58,475

State of Delaware
Comprehensive Annual Financial Report

Statistical Section

STATE OF DELAWARE
CONDENSED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30:

(Expressed in Thousands)

	1996	1997	1998	1999	2000
REVENUES:					
Taxes (1)	$ 1,540,565	$ 1,566,922	$ 1,797,295	$ 1,864,867	$ 1,925,457
Licenses, fines, permits and fees (10)	515,359	581,344	586,908	641,972	733,593
Rentals & sales	87,430	96,747	100,226	92,777	102,831
Federal government	104,380	72,575	58,381	6,144	66,473
Interest and other investment income	42,603	41,940	47,643	44,443	61,761
Other revenues (10)	163,503	164,056	217,116	306,106	227,463
TOTAL REVENUES	2,453,840	2,523,584	2,807,569	2,956,309	3,117,578
EXPENDITURES:					
General Government (2) (10)	443,165	473,140	528,965	795,965	816,346
Health and Children's Services (3)	530,187	534,840	563,689	599,021	664,909
Judicial and Public Safety (4)	241,873	263,195	274,368	310,939	352,344
Natural Resources and Environmental Control	120,993	77,484	80,932	104,788	105,847
Labor (6)					15,775
Transportation (8)	111,999	109,889	109,964	117,498	132,481
Education (5)	669,046	748,669	809,590	824,277	890,541
Payment to Component Unit -					
General Government (10)					
Education (10)					
Other (6)	39,254	64,802	67,178	88,785	
Debt service: (9)					
Principal					
Interest					
TOTAL EXPENDITURES	2,156,517	2,272,019	2,434,686	2,841,273	2,978,243
EXCESS OF REVENUES OVER EXPENDITURES	297,323	251,565	372,883	115,036	139,335
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Operating transfers in	266,009	326,474	279,333	318,550	368,379
Operating transfers out	(491,794)	(484,481)	(430,367)	(447,595)	(474,086)
Other sources (uses)	646				
NET OTHER USES	(225,139)	(158,007)	(151,034)	(129,045)	(105,707)
SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	72,184	93,558	221,849	(14,009)	33,628
FUND BALANCE AT BEGINNING OF YEAR	506,231	578,415	671,973	893,822	879,813
RESIDUAL EQUITY TRANSFER OUT TO COMPONENT UNITS					(1,086)
FUND BALANCE AT END OF YEAR	$ 578,415	$ 671,973	$ 893,822	$ 879,813	$ 912,355

(1) Taxes includes Personal Income Taxes and Business Taxes

(2) General Government summarizes the expenditures of the following General Government Departments; Legislative, Executive, Technology and Information, Other Elective Offices, State, Finance, Administrative Services, Agriculture, Elections and the Advisory Council for Exceptional Citizens.

(3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services and Services for Children, Youth and Their Families

(4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Safety and Homeland Security, Fire Prevention and the Delaware National Guard.

(5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.

(6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001 the category "Other" was eliminated and departments were grouped with similar or related functions. Fiscal year 2000 expenditures were restated for comparability purposes.

(7) Fund Balance has been restated due to the implementation of GASB Statement No. 34.

(8) The Department of Transportation is reported as an Enterprise Fund and is no longer part of the General Fund in 2002.

(9) Debt service activities are accounted for in the General Fund starting in fiscal year 2002.

(10) Reclassification of expenses in 2002 due to GASB 34

	2001	2002	2003	2004	2005
REVENUES:					
Taxes (1)	$ 2,023,671	$ 2,032,305	$ 2,093,993	$ 2,382,877	$ 2,521,051
Licenses, fines, permits and fees (10)	728,265	227,051	241,370	295,379	295,121
Rentals & sales	312,228	26,592	20,621	22,347	20,292
Federal government	46,333	52,279	61,966	70,735	35,583
Interest and other investment income	82,971	46,756	65,205	30,713	30,107
Other revenues (10)	112,388	186,374	216,068	253,259	233,251
TOTAL REVENUES	3,305,856	2,571,357	2,699,223	3,055,310	3,135,405
EXPENDITURES:					
General Government (2) (10)	881,189	454,186	398,653	406,179	482,826
Health and Children's Services (3)	737,169	781,383	839,173	847,665	866,193
Judicial and Public Safety (4)	374,342	386,457	395,086	410,876	435,735
Natural Resources and Environmental Control	108,086	100,218	97,951	131,469	130,759
Labor (6)	18,132	27,131	25,568	27,649	29,295
Transportation (8)	144,690				
Education (5)	1,007,084	1,023,968	1,003,769	1,023,950	1,115,589
Payments to Component Units -					
General Government (10)		8,821	5,947	1,952	0
Education (10)		40,571	53,633	67,900	57,433
Other (6)					
Debt service: (9)					
Principal		79,757	84,079	94,522	107,890
Interest		34,134	33,676	39,246	46,160
TOTAL EXPENDITURES	3,270,692	2,936,626	2,937,535	3,051,408	3,271,880
EXCESS OF REVENUES OVER EXPENDITURES	35,164	(365,269)	(238,312)	3,902	(136,475)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Operating transfers in	412,735	333,566	474,634	399,037	388,676
Operating transfers out	(597,693)	(30,020)	(31,180)	(56,198)	(104,204)
Other sources (uses)		(20,764)	(177,728)	(79,882)	(50,145)
NET OTHER USES	(184,958)	282,782	265,726	262,957	234,327
SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(149,794)	(82,487)	27,414	266,859	97,852
FUND BALANCE AT BEGINNING OF YEAR (7)	912,355	1,004,126	921,639	949,053	1,215,912
RESIDUAL EQUITY TRANSFER OUT TO COMPONENT UNITS					
FUND BALANCE AT END OF YEAR	$ 762,561	$ 921,639	$ 949,053	$ 1,215,912	$ 1,313,764

STATE OF DELAWARE
REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30:

(Expressed in Thousands)

	1996	1997	1998	1999	2000
REVENUES:					
Taxes (1)	$ 1,720,945	$ 1,758,772	$ 1,999,391	2,077,462	$ 2,141,475
Licenses, fees, permits & fines (9)	515,415	581,467	587,086	642,081	733,851
Rentals & sales	101,883	112,056	115,440	107,609	118,422
Federal government	587,288	599,263	635,114	621,069	790,201
Interest and other investment income	53,207	55,563	69,508	66,148	81,843
Other revenues (9)	217,218	187,924	244,453	329,515	231,997
TOTAL REVENUES	$ 3,195,956	$ 3,295,045	$ 3,650,992	3,843,884	$ 4,097,789
EXPENDITURES:					
General Government (2) (9)	$ 480,946	$ 526,490	$ 576,910	857,308	$ 865,673
Health and Children's Services (3)	810,489	830,907	874,074	933,107	1,050,181
Judicial and Public Safety (4)	250,834	270,105	292,775	327,254	372,274
Natural Resources & Environmental Control	147,916	106,274	104,251	123,479	128,222
Labor (6)					45,347
Transportation (7)	304,023	317,350	336,793	380,667	429,447
Education (5)	1,006,230	1,085,730	1,157,766	1,193,678	1,297,611
Payment to Component Unit -					
General Government (9)					
Education (9)					
Other (6)	72,353	98,017	102,390	126,077	
Capital outlay (8)					
Debt service -					
Principal (7)	88,827	92,778	102,244	108,175	115,961
Interest (7)	70,353	65,954	68,367	68,895	67,881
Costs of issuance of debt (10)					
TOTAL EXPENDITURES	$ 3,231,971	$ 3,393,605	$ 3,615,570	4,118,640	$ 4,372,597

(1) Taxes includes Personal Income Taxes and Business Taxes

(2) General Government summarizes the expenditures of the following General Government Departments; Legislative, Executive, Technology and Information, Other Elective Offices, State, Finance, Administrative Services, Agriculture, Elections, and the Advisory Council for Exceptional Citizens.

(3) Health and Children's Services summarizes the expenditures of the Departments of Health and Social Services and Services for Children, Youth and Their Families.

(4) Judicial and Public Safety summarizes the expenditures of the following Departments: Judicial, Legal, Corrections, Public Safety, Fire Prevention and the Delaware National Guard.

(5) Education summarizes the expenditures of the Departments of Higher Education and Public Education.

(6) "Other" summarizes the expenditures of the following Departments: Labor, Agriculture, Elections, Fire Prevention, the Delaware National Guard and the Advisory Council for Exceptional Citizens. Effective fiscal year 2001, the category "Other" was eliminated and departments were grouped with similar or related functions. Fiscal year 2000 expenditures were restated for comparability purposes.

(7) The Department of Transportation, including debt service, is reported as an Enterprise Fund effective fiscal year 2002.

(8) Presented by Department and function prior to fiscal year 2002

(9) Reclassification of expenses in 2002 due to GASB 34

(10) Cost of Issuance of Debt reported as expense effective fiscal year 2004.

Source: Delaware's Comprehensive Annual Financial Report

	2001	2002	2003	2004	2005
Taxes (1)	$ 2,257,952	$ 2,271,259	$ 2,352,666	$ 2,673,622	$ 2,836,555
Licenses, fees, permits & fines (9)	728,414	228,599	241,663	296,238	296,011
Rentals & sales	333,747	49,576	43,461	51,793	57,246
Federal government	664,263	731,918	775,725	913,880	929,703
Interest and other investment income	111,374	58,624	73,911	36,109	35,624
Other revenues (9)	153,234	230,241	260,270	295,087	266,657
TOTAL REVENUES	$ 4,248,984	$ 3,570,217	$ 3,747,696	$ 4,266,729	$ 4,421,796
General Government (2) (9)	$ 938,328	$ 466,848	$ 413,096	$ 422,785	$ 503,097
Health and Children's Services (3)	1,175,376	1,261,128	1,372,705	1,407,976	1,480,000
Judicial and Public Safety	398,293	407,608	410,084	439,640	472,406
Natural Resources & Environmental Control	128,272	125,301	116,399	165,960	160,840
Labor (6)	49,228	60,572	59,500	62,716	68,156
Transportation (7)	293,358				
Education (5)	1,446,986	1,440,044	1,432,937	1,501,237	1,633,834
Payment to Component Unit -					
General Government (9)		8,821	5,927	1,952	0
Education (9)		40,571	68,850	73,361	73,279
Other (6)					
Capital outlay (8)		168,418	189,713	162,154	173,561
Debt service -					
Principal (7)	120,281	79,757	84,079	94,522	107,890
Interest (7)	70,012	34,134	33,676	39,246	46,160
Costs of issuance of debt (10)				515	533
TOTAL EXPENDITURES	$ 4,620,134	$ 4,093,202	$ 4,186,966	$ 4,372,064	$ 4,719,756

Demographic and Economic Statistics

The following tables present pertinent demographic and economic statistics. These figures demonstrate that Delaware's growth in population surpassed the growth experienced by nearby states in the Mideast region (Maryland, New Jersey, New York and Pennsylvania) and the nation as a whole over the last ten years. State per capita personal income was 109% of U.S. per capita personal income in 2004. Delaware per capita personal income growth was greater than that of the mid-Atlantic region and the U.S. for the same year.

Population Statistics
(Expressed in Thousands)

Calendar	Delaware		Mid-Atlantic Region		United States	
Year	Population	Change	Population	Change	Population	Change
1995	730	1.7%	45,186	0.6%	266,278	1.2%
1996	741	1.5%	45,384	0.4%	269,394	1.2%
1997	751	1.3%	45,580	0.4%	272,647	1.2%
1998	763	1.6%	45,822	0.5%	275,854	1.2%
1999	775	1.6%	46,106	0.6%	279,040	1.2%
2000	786	1.4%	45,817	-0.6%	282,192	1.1%
2001	796	1.3%	46,066	0.5%	285,102	1.0%
2002	806	1.3%	46,304	0.5%	287,941	1.0%
2003	818	1.5%	46,556	0.5%	290,789	1.0%
2004	830	1.5%	46,721	0.4%	293,655	1.0%

Source: U.S. Department of Commerce

Per Capita Personal Income

Year	Delaware	Change	United States	Change	Delaware as a Percent of U.S.
1994	$ 24,218	2.7%	$ 22,340	3.7%	108%
1995	$ 24,992	3.2%	$ 23,255	4.1%	107%
1996	$ 26,140	4.6%	$ 24,270	4.4%	108%
1997	$ 26,807	2.6%	$ 25,412	4.7%	105%
1998	$ 28,662	6.9%	$ 26,893	5.8%	107%
1999	$ 29,312	2.3%	$ 27,880	3.7%	105%
2000	$ 30,869	5.3%	$ 29,845	7.0%	103%
2001	$ 32,097	4.0%	$ 30,575	2.4%	105%
2002	$ 33,085	3.1%	$ 30,804	0.7%	107%
2003	$ 34,199	3.4%	$ 31,472	2.2%	109%
2004	$ 35,861	4.9%	$ 32,937	4.7%	109%

Source: U.S. Department of Commerce

In 2003, Delaware, along with all other U.S. states and territories, implemented the North American Industry Classification System (NAICS) for gathering and reporting economic data. NAICS is an improvement over the former method used since it more fully recognizes the rise in economy's service and information bases and makes distinctions within each firm. The change in the classification system means that any comparisons of historical information are likely to produce unreliable results. Accordingly, readers should be aware that such data is not based upon actual historical series and reliance thereon should be limited.

The following table presents trends in employment in the State by major categories for the last five years.

Composition of Delaware Labor Force

For the Calendar Year Ended December 31

(Expressed in Thousands)

	2000	2001	2002	2003	2004
Civilian Labor Force Data					
Employed (1)	403.0	405.1	403.0	403.8	405.7
Unemployed	13.8	14.7	15.8	16.7	17.3
Total	416.8	419.8	418.8	420.5	423.0
NAICS Data					
Construction and Mining	24.6	24.5	24.2	24.4	26.4
Manufacturing	41.5	39.4	37.1	35.7	34.9
Wholesale	13.2	13.4	13.6	14.2	14.8
Retail Trade	51.4	50.6	51.1	51.8	52.5
Transportation, Warehousing and Utilities	14.2	12.8	12.3	12.7	13.5
Information	8.1	8.1	7.7	7.4	7.1
Financial Activities	46.4	46.8	46.4	45.3	44.7
Professional and Business Services	66.2	66.0	60.8	58.9	61.7
Education and Health Services	45.5	47.4	48.7	50.4	51.7
Leisure and Hospitality	35.8	36.4	37.6	38.4	40.1
Other Services	15.9	17.3	17.9	18.3	18.7
Government	56.6	56.9	57.1	57.2	58.1
Non-Agricultural Employment Total (2)	420.0	419.4	414.5	414.7	424.2

(1) This indicator reflects the number of Delaware residents 16 years of age or older, who worked at least one hour for pay or profit, and includes employment in agriculture, proprietors, self-employed, unpaid family workers and domestic workers.

(2) Based on reconstructed and restated data complying with the North American Industry Classification System (NAICS) (see discussion below). This indicator includes persons on Delaware non-agricultural establishment payrolls, regardless of of their place of residence, and does not include proprietors, self-employed, unpaid family workers, domestic workers and military personnel. The total may not add due to rounding.

Source: Delaware Department of Labor

The following table depicts non-agricultural employment growth for Delaware, the Mideast region and the U.S. for 2000 – 2004.

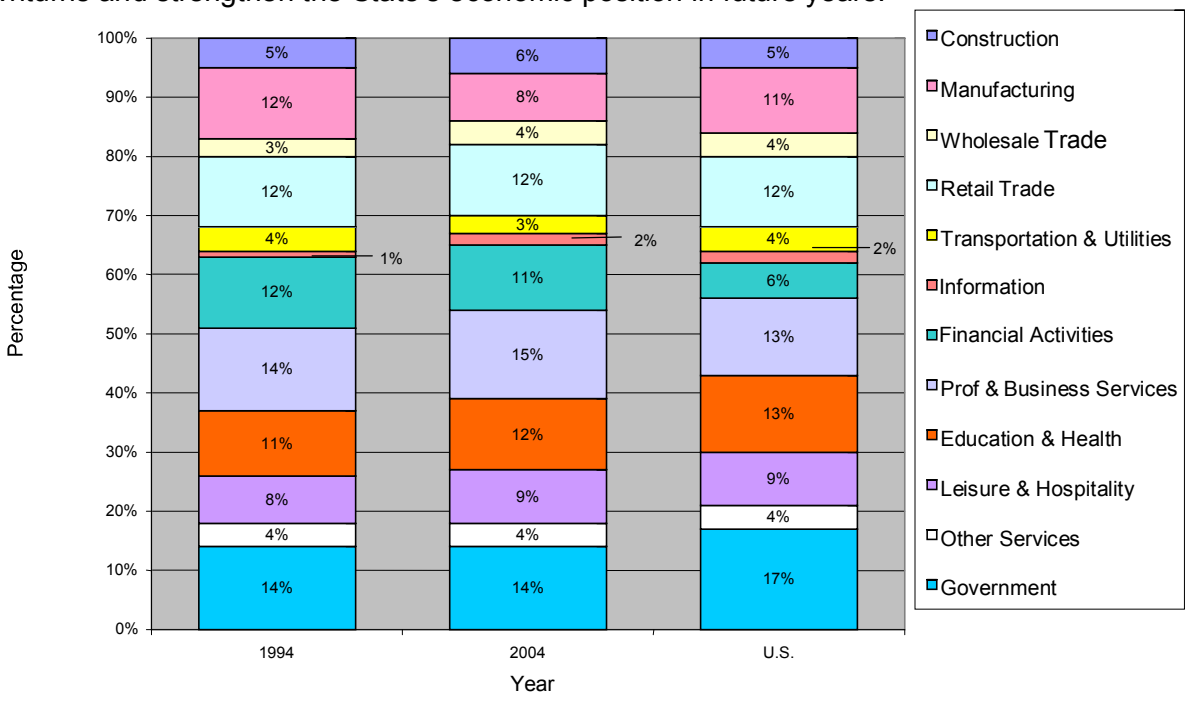
Non-Agricultural Employment Growth Rates

	2000	2001	2002	2003	2004
Delaware	1.7%	(0.1%)	(1.2%)	0.0%	2.3%
Mideast Region	2.2%	0.1%	(0.4)	(0.2%)	0.7%
United States	2.2%	0.0%	(1.1%)	(0.3%)	1.1%

Sources: U.S. Department of Labor and Delaware Department of Labor

Note: Delaware DOL revised rates for prior years due to Federal methodology changes; i.e., unemployment rates.

The chart below shows Delaware's employment base has enjoyed vigorous growth in historically smaller sectors within the State. Once heavily reliant on the manufacturing base, Delaware has experienced gains in several of the service industries and now stands below the national average for dependence on manufacturing. The diversification of the State's economic base will help Delaware to continue to weather the economic downturns and strengthen the State's economic position in future years.



As of June 2005, Delaware's unemployment rate was 4.1%. It was lower than the regional rate of 4.3% and the national rate of 5.0%, ranking the State among the 14th lowest in the U.S. The following table presents the average annual unemployment rates for Delaware, the Mideast region and the United States for the last ten years.

Unemployment Rates

Year	Delaware	Mideast Region	United States
1996	5.2% (1)	5.3%	5.4%
1997	4.0%	4.9%	4.9%
1998	3.8%	4.2%	4.5%
1999	3.5%	4.0%	4.2%
2000	3.9%	3.6%	4.0%
2001	3.4%	4.2%	4.8%
2002	4.2%	5.1%	5.8%
2003	4.4%	5.1%	6.0%
2004	3.7%	4.6%	5.6%
2005	4.1%	4.6%	5.3%

(1) Reflects the temporary closing of two automobile production plants
Sources: U.S. Department of Labor and Delaware Department of Labor

The table below lists the fifteen largest commercial and industrial employers in the State as of June 30, 2005.

Delaware's Largest Private Employers

Name	Nature	Number of Employees
MBNA America Bank	Commercial banking	10,100
E.I. duPont de Newmours & Co., Inc.	Chemicals and energy; corporate headquarters	9,500
Christiana Care Health Services	Hospital complex and home healthcare subsidiary	7,100
J.P. Morgan Chase & Co.	Commercial banking	5,500
AstraZeneca, Inc.	Pharmaceuticals and specialty chemicals; corporate headquarters	4,800
Wal-Mart Inc.	Retail chain	3,800
Mountaire Farms of Delmarva, Inc.	Food processor	3,600
Alfred I. duPont Institute	Children's health care facility	3,000
Perdue Farms, Inc.	Boilers, feed and grains	2,900
Bayhealth Medical Center	Hospital complex	2,700
Wilmington Trust Co.	Banking	2,200
Happy Harry's Inc.	Retail chain	2,200
DaimlerChrysler	Automotive assembly	2,100
General Motors	Automotive assembly	1,800
Acme Markets	Retail groceries	1,700

Each county within the State determines the assessed values of real estate for taxation purposes. The following table depicts the assessed and full valuation of all taxable real property of the State as well as a comparison of the total value of residential, commercial and non-building construction contracts and the total bank deposits for the years 1995

through 2004. The next table depicts public and higher education school enrollments for the last ten years.

Property Valuation, Construction and Bank Deposits

(Expressed in Millions)

Calendar Year	Assessed Valuation (1)	Full Valuation	Value of Construction Contracts (2)	Bank Deposits (3)
1995	$ 17,894	$ 39,319	$ 863	$ 40,746
1996	$ 18,212	$ 41,793	$ 800	$ 42,720
1997	$ 18,663	$ 43,264	$ 934	$ 62,149
1998	$ 19,132	$ 45,961	$ 892	$ 63,837
1999	$ 19,519	$ 47,431	$ 1,036	$ 73,226
2000	$ 19,940	$ 51,998	$ 982	$ 88,733
2001	$ 20,303	$ 55,367	$ 934	$ 94,413
2002	$ 20,750	$ 59,595	$ 824	$ 102,456
2003	$ 21,312	$ 68,987	$ 823	$ 108,675
2004	$ 21,874	$ 75,154	$ 1,174	$ 222,110

(1) The assessed and full valuation of all taxable real property as of June 30 of each year.

(2) The total value of construction contracts awarded as of December 31 of each year.

(3) The total value of bank deposits as of December 31 of each year.

Sources: Delaware Department of Education
Delaware State Banking Commission
F.W. Dodge Division, McGraw-Hill

School Enrollment

School Year	Public School Enrollment (1)	Public and Private Higher Education Enrollment	Total
1995	105,619	42,940	148,559
1996	107,348	44,537	151,885
1997	109,538	45,241	154,779
1998	112,160	46,155	158,315
1999	112,262	46,476	158,738
2000	113,699	45,563	159,262
2001	114,693	47,031	161,724
2002	115,566	48,842	164,408
2003	117,055	48,720	165,775
2004	118,413	49,804	168,217

(1) Excludes children of military personnel living on Dover Air Force Base who attend Base schools and whose education is federally funded.

Sources: Delaware Department of Education
Delaware Higher Education Commission

Debt Limits

There is no Constitutional debt limit of the State.

In 1991, the General Assembly passed legislation to replace the prior statutory debt limits with a three-part debt limit, as follows:

1) The aggregate principal amount of new "tax-supported obligations of the State" (hereinafter defined) which may be authorized in any one fiscal year (excluding refunding bonds) may not exceed 5% of estimated net budgetary General Fund revenue for that fiscal year. This is determined by a joint resolution approved by a majority of the members elected to each house of the General Assembly and signed by the Governor in connection with the adoption of the annual Budget Appropriation Bill for that fiscal year (the 5% Rule). The June 2005 budgetary General Fund revenue estimate for fiscal year 2006 was $3,006.4 million, thus a total of $150.3 million of new general obligation debt was permissible under the 5% Rule. For fiscal year 2006, $150.3 million was authorized. The authorization for the issuance of the bonds consists of authorizations from fiscal 2005 as well as prior years.

   The level of new tax-supported debt authorization permitted under the 5% Rule is set out in the following table. The figures assume the September 2005 budgetary General Fund revenue DEFAC projections for fiscal 2007. From the DEFAC's fiscal 2006 estimate, the figures assume 2.7% annual revenue growth for fiscal 2007, 4.0% annual growth for fiscal 2008, and 4.6% annual growth for 2009 and 2010, respectively.

The 5% Rule

(Expressed in Millions)

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Estimated Net Budgetary General Fund Revenue	$ 3,006.4	$ 3,088.9	$ 3,212.5	$ 3,360.2	$ 3,514.9
Projected New Tax-Supported Debt Authorizations	$ 150.3	$ 154.4	$ 160.6	$ 168.0	$ 175.7

(2) No "tax-supported obligations of the State" and no "Transportation Trust Fund ("Trust Fund" or "TTF") debt obligations" (hereinafter defined) of the Delaware Transportation Authority may be incurred if the aggregate maximum annual payments on all such outstanding obligations exceed 15% of the estimated budgetary General Fund revenue plus Transportation Trust Fund revenue for the fiscal year following the fiscal year in which such obligation is incurred (the "15% Test"). As of Fiscal 2005, this ratio stands at 7.5%.

(3) No general obligation debt (with certain exclusions) may be incurred if the maximum annual debt service payable in any fiscal year on all such outstanding obligations will exceed the estimated cumulative cash balances (including all reserves) for the fiscal year following the fiscal year in which such obligation is incurred (the "Cash Balances Test") as estimated by the Secretary of Finance. As of Fiscal 2005, the debt service payable represents 25.0% of the estimated cumulative cash balance.

"Tax-supported obligations of the State" include:

a) all obligations of the State or any agency or authority thereof to which the State's full faith and credit is pledged and;

b) all obligations of the State or any agency or authority thereof extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions, and which are payable from taxes, fees, permits, licenses and fines imposed or approved by the General Assembly.

Tax-supported obligations do not include:

a) obligations incurred to acquire a like principal amount of full faith and credit obligations issued by a local school district to the extent local school district obligations are not in default;

b) any obligation notes of the Delaware Transportation Authority;

c) any tax or other revenue anticipation notes or bonds of the State; and

d) obligations to the extent that the debt service is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-budgetary General Fund source.

"Transportation Trust Fund debt obligations" includes all debt obligations of the Delaware Transportation Authority, including all obligations extending beyond one year with respect to the lease, occupancy or acquisition of property which are incurred in connection with debt financing transactions (for example, certificates of participation), and which in any case are payable from the Trust Fund. Trust Fund debt obligations do not include any obligations to the extent that the debt service with respect thereto is reasonably expected to be offset (as determined by the Secretary of Finance) by lease payments, user fees, federal grants or other payments from a non-State source.

General Obligation Debt

The following tables reflect the outstanding general obligation debt of the State as of June 30, 2005, of which a portion is supported by budgetary General Fund revenue and a portion of which is supported by budgetary Special Funds.

Outstanding General Obligation Debt

(Expressed in Millions)

General Obligation Debt Supported by Budgetary General Fund Revenue		
State Facilities	$	428.3
School Facilities (State Share)		260.6
Subtotal		688.9
General Obligation Debt Supported by Budgetary Special Funds		
Highway and Other Transportation Improvements		4.8
School Facilities (Local Share)		332.6
Housing Authority Loans		0.6
Subtotal	$	338.0
Total General Obligation Debt Outstanding	$	1,026.9

Debt Burden Comparison

The State's general obligation debt is $1,026.9 million as of June 30, 2005. Approximately 80% of the debt is scheduled to mature within ten years and approximately 93% is scheduled to mature within fifteen years. Total general obligation debt per capita is $1,229 as of June 30, 2005.

The following table outlines the State's outstanding general obligation debt balance and bond ratings and demonstrates the changes in the State's general obligation debt burden since fiscal year 1996.

Ratio of Annual General Obligation Debt Service to Total Revenues and Expenditures
All Governmental Funds

(Expressed in Thousands)

Fiscal Year	Total Debt Service	Total Revenues	Ratio of Debt Service to Total Revenues	Total Expenditures	Ratio of Debit Service to Total Expenditures
1996	$ 92,564	$ 3,195,956	2.9 %	$ 3,231,971	2.9 %
1997	92,374	3,295,045	2.8	3,393,605	2.7
1998	103,876	3,650,992	2.8	3,615,570	2.9
1999	109,990	3,843,884	2.9	4,118,640	2.7
2000	116,935	4,097,789	2.9	4,372,597	2.7
2001	120,443	4,248,984	2.8	4,620,134	2.6
2002	113,664	3,570,217	3.2	4,093,202	2.8
2003	117,755	3,747,696	3.1	4,186,966	2.8
2004	133,768	4,266,729	3.1	4,372,064	3.1
2005	154,050	4,421,796	3.5	4,719,756	3.3

Sources: Delaware's Comprehensive Annual Financial Report

Ratio of General Obligation Bonded Debt Per Capita and Debt as a Percentage of Personal Income

(Expressed in Thousands)

Fiscal Year	Population		Total Principal Outstanding	Bonded Debt per Capita	Debt as % Personal Income	Bond Ratings: Moody's	Bond Ratings: Standard & Poor's	Bond Ratings: Fitch Ratings
1996	741		572,956	773	3.0%	Aa1	AA+	
1997	751		654,676	872	3.2%	Aa1	AA+	
1998	763		686,116	899	3.1%	Aa1	AA+	
1999	775		720,171	929	3.2%	Aa1	AA+	
2000	787		738,176	938	3.0%	Aaa	AAA	AAA
2001	797		653,701	820	2.6%	Aaa	AAA	AAA
2002	807		709,958	880	2.7%	Aaa	AAA	AAA
2003	818	(1)	854,262	1,044	3.2%	Aaa	AAA	AAA
2004	829	(1)	1,012,544	1,221	3.7%	Aaa	AAA	AAA
2005	839	(1)	1,026,947	1,224	3.9%	Aaa	AAA	AAA

(1) Estimated - Assumes 1.3% growth.

Sources: U.S. Census Bureau and Delaware Department of Finance

Revenue Bond Coverage

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Delaware Transportation Authority. Data for the State's Component Units – Delaware Housing Authority and Delaware State University is also outlined in the following tables. The State is not directly or contingently liable for any indebtedness of the Delaware State Housing Authority or the Delaware State University. Further information for these authorities may be found in the Notes to the Financial Statements, Revenue Bonds and Notes Payable.

Delaware Transportation Authority

(Expressed in Thousands)

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Available for Debt Service	Debt Service Requirements (3)	Coverage
1996	$ 229,771	$ 95,859	$ 133,912	$ 67,704	1.98
1997	233,913	105,371	128,542	67,064	1.92
1998	254,887	119,428	135,459	61,761	2.19
1999	272,398	119,816	152,582	66,018	2.31
2000	284,167	118,739	165,428	66,139	2.50
2001	299,962	147,065	152,897	72,852	2.10
2002	297,894	140,940	156,954	74,834	2.10
2003	298,536	156,394	142,142	86,447	1.64
2004	314,205	177,545	136,660	85,816	1.59
2005	324,962	192,738	132,224	93,290	1.42

Source: Delaware Department of Transportation

Delaware State University

(Expressed in Thousands)

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Available for Debt Service	Debt Service Requirements(3)	Coverage
1996	$ 21,043	$ 18,756	$ 2,287	$ 1,381	1.66
1997	21,688	18,226	3,462	1,678	2.06
1998	23,702	19,770	3,932	1,665	2.36
1999	26,262	20,203	6,059	1,429	4.24
2000	29,899	14,757	15,142	864	17.53
2001	28,858	14,689	14,169	1,546	9.16
2002	32,170	15,447	16,723	1,614	10.36
2003	34,504	20,992	13,512	1,612	8.38
2004	39,191	24,104	15,087	2,390	6.31
2005	43,695	26,227	17,468	2,380	7.34

(1) Gross revenues represent total revenues less State appropriations.

(2) Direct Operating Expenses represent total unrestricted educational and general expenditures, less State appropriations.

(3) Debt Service Requirements for 2004 and 2005 include the DSU Student Housing Foundation

Source: Delaware State University

Delaware State Housing Authority

(Expressed in Thousands)

Fiscal Year		Gross Revenue *	Direct Operating Expenses	Net Available for Debt Service	Debt Service Requirements	Coverage	
1996		$ 85,703	$ 2,985	$ 82,718	$ 78,317	1.06	
1997		76,155	2,831	73,324	75,881	0.97	**
1998		77,098	3,102	73,996	61,805	1.20	
1999		80,079	1,825	78,254	77,961	1.00	
2000	***	128,207	56,582	71,625	69,104	1.04	
2001		106,381	34,772	71,609	67,091	1.07	
2002		179,672	40,731	138,941	130,908	1.06	
2003		143,526	43,370	100,156	88,786	1.13	
2004		191,127	40,838	150,290	148,475	1.01	
2005		132,745	41,613	91,132	90,127	1.01	

* Gross revenue represents total operating revenues, interest income on investments, mortgage principle repayments and bond proceeds.

** Shortages are the result of timing differences between revenue receipts and actual date of debt service payments.

*** Reflects reclassification of federal special revenue funds to enterprise fund in fiscal 2000.

Source: Delaware State Housing Authority

State of Delaware

Comprehensive Annual Financial Report

For the Year Ended June 30, 2005

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